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KOREA

STAFF APPRAISAL REPORT

THE KOREA LONG - TERM CREDIT BANK

THE KOREA DEVELOPMENT FINANCE CORPORATION VIII

November 20, 1980

Projects Department
East Asia and Pacific Regional Office

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CURRENCY EQUIVALENTS

	<u>Prior to 1/12/80</u>	<u>From 1/12/80</u>
US\$1.00	= Won 485	Won 580
US\$1 million	= Won 485 million	Won 580 million
Won 1	= US\$0.0021	US\$0.0017
Won 1 million	= US\$2,062	US\$1,724
Won 1 billion	= US\$2.06 million	US\$1.72 million

ABBREVIATIONS

ADB	- Asian Development Bank
BOK	- Bank of Korea
CNB	- Citizens National Bank
DMB	- Deposit Money Bank
EPB	- Economic Planning Board
ERR	- Economic Rate of Return
Exim Bank	- Export Import Bank of Korea
FRR	- Financial Rate of Return
GNP	- Gross National Product
GRA	- Guarantee Release Arrangement
IFC	- International Finance Company
IFD	- Industrial Finance Debenture
IRF	- Industrial Rationalization Fund
KDB	- Korea Development Bank
KDFC	- Korea Development Finance Company
KECO	- Korea Electric Company
KfW	- Kreditanstalt fur Wiederaufbau
KFX	- Korea Foreign Exchange
KIST	- Korea Institute of Science and Technology
KLTCB	- Korea Long Term Credit Bank
MCI	- Ministry of Commerce and Industry
MOF	- Ministry of Finance
NIF	- National Investment Fund
POSCO	- Pohang Iron and Steel Company
SMI	- Small and Medium Industry
SMIB	- Small and Medium Industry Bank
SSI	- Small Scale Industry
TDF	- Tourism Development Fund
TSD	- Time and Savings Deposits

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1. THE INDUSTRIAL SECTOR /1

Contribution to the Economy

1.01 Since the early 1960s, the industrial sector, and more specifically manufacturing,^{/2} has been the engine of growth of the Korean economy. Over the period 1974-78, the manufacturing sector has grown at an average of 17.5% p.a. in real terms compared to an average 11% growth of aggregate GNP. In 1979, the growth rate of the manufacturing sector slowed to 10.6%, still higher than the 7.1% growth of real GNP. The share of manufacturing in total GNP has increased from 25.2% in 1974 to 32.7% in 1979. In 1975, for the first time the share of manufacturing in total real GNP exceeded that of agriculture; by 1979, agriculture accounted for only 18.8% of GNP compared to 32.7% for manufacturing. In 1979, seasonally adjusted manufacturing employment reached 3.1 million ^{/3} and accounted for 22.9% of the total employed population compared to 15.9% in 1973. Over the five-year period 1975-79, approximately 1.1 million jobs have been created in the manufacturing sector; this represented 53.6% of total net employment creation during that period.

1.02 Export Orientation and Export Dependence. Korea's success in economic development is largely based on a strategy of export promotion with emphasis on manufactured exports. Total commodity exports just exceeded US\$10 billion in current prices in 1977 but reached US\$15.1 billion in 1979. The volume of Korea's exports doubled between 1975 and 1978. The growth rate of commodity exports slowed in real terms to about 15.8% p.a. over the period 1977-78 compared to an average of 32.7% p.a. over the period 1972-76. In 1979, the nominal value of exports reached \$15.1 billion, 18.4% higher than in 1978; in real volume terms, however, this represented a 0.9% decline over 1978.

1.03 Manufactured products, which accounted for about 52% of total exports in 1964, have gradually increased their share and have remained at about 90% since 1976. Gradual changes have taken place in the structure of manufactured exports over the past three years: light manufactured products including textiles have declined in relative terms from 52.7% of total exports in 1977 to 50.4% in 1979; heavy industry products have increased their share from 32.8% in 1977 to 38.6% in 1979. However, some of Korea's traditional light exports such as footwear and clothing have remained buoyant. The changing composition of Korean exports reflects the significant changes which have taken place in recent years in the structure of the manufacturing sector.

/1 Chapters 1 and 2 are verbatim reproductions of the industrial and financial sector write-ups contained in the Staff Appraisal Report on the Korea Development Bank.

/2 In 1979, manufacturing alone accounted for 96% (in 1975 prices) of total value added in the industrial sector (i.e. mining and manufacturing).

/3 Compared to 4.9 million in agriculture.

1.04 It is estimated that export expansion contributed about 35% of the growth in manufacturing output over the period 1975-77 against 74% for domestic demand./1 The real growth rate of the manufacturing sector was higher than that of exports in both 1978 and 1979, which, to some extent, reflects the growing demand for manufactured goods in the domestic market. Domestic demand has been expanding very rapidly in the past few years as a result of sharply rising incomes. A major investment boom, particularly in housing and manufacturing, started in 1977 and was an important element of the growing domestic demand. Excessive demand in the domestic market relative to the supply of goods increased inflationary pressures in 1978-79 and encouraged domestic sales in preference to exports. The erosion of the competitiveness of Korea's exports resulting from inflationary pressures coupled with a weakness in external demand contributed to a substantial deficit in the 1979 balance of payments. In the long run, however, rising domestic demand may prove a favorable development considering that, until 1977, the export dependence of the manufacturing sector had been growing faster than planned. The ratio of manufactured exports to output reached 26.9% in 1977 with considerable variations in the dependence ratio of the various subsectors./2

Structural Changes in Manufacturing

1.05 The growth of the manufacturing sector has been accompanied by significant adjustments in the importance of the various component subsectors as shown in the following table:

/1 Import substitution made a negative (-9%) contribution.

/2 The export output ratio reached a level of 67% for wood and furniture and 91% for some miscellaneous products in 1977.

COMPOSITION OF VALUE ADDED IN MANUFACTURING, 1970-78
(W billion in 1975 prices)

	1970		1974		1978	
	Amount	%	Amount	%	Amount	%
<u>Light Industries</u>						
Textiles	176.9	15.6	425.0	18.5	710.1	16.3
Others	484.0	42.6	798.9	34.7	1,336.3	30.7
Subtotal	<u>660.9</u>	<u>58.2</u>	<u>1,223.9</u>	<u>53.2</u>	<u>2,046.4</u>	<u>47.0</u>
<u>Heavy Industries</u>						
Basic metals	26.9	2.4	102.1	4.4	224.9	5.2
Machinery /a	111.1	9.8	361.0	15.7	971.2	22.3
Chemicals /b	336.7	29.6	614.1	26.7	1,107.4	22.5
Subtotal	<u>474.7</u>	<u>41.8</u>	<u>1,077.2</u>	<u>46.8</u>	<u>2,303.5</u>	<u>53.0</u>
<u>Total Manufacturing</u>	<u>1,135.6</u>	<u>100.0</u>	<u>2,301.1</u>	<u>100.0</u>	<u>4,349.9</u>	<u>100.0</u>

/a Including fabricated metal products.

/b Including paper and paper products, petroleum and nonmetallic mineral products.

Source: Table 8.13. World Bank Economic Report dated May 15, 1979.

1.06 The composition of manufacturing shows a marked shift in favor of heavy industry whose share of total manufacturing value added exceeded 50% for the first time in 1978. The most significant gains have been registered by the machinery sector. The rate of growth of chemical industries, however, lagged behind so that the sector declined from about 30% in 1970 to 22.5% in 1978. Light industries have declined steadily since 1970. The sharpest declines were recorded in the food, beverage and tobacco sector. Textiles have been maintaining their 16-17% share of total manufacturing value added. The changes in the structure of manufacturing reflect a deliberate policy to shift production gradually from Korea's traditional light industrial production towards more skill- and technology-intensive types of production.

Geographic Distribution

1.07 The 1975 population census showed that approximately 27% of the population of Korea lived in the cities of Seoul and Busan; the province of North Gyeongsang in which Taegu, the third largest industrial city is located,

accounted for another 14%. The following table shows that the regional distribution of manufacturing enterprises and employment is skewed in favor of Seoul and Busan.

GEOGRAPHIC DISTRIBUTION OF INDUSTRY
(%)

	1974			1977		
	No. of enterprises	No. of workers	Value added	No. of enterprises	No. of workers	Value added
Seoul and Busan	34.6	48.7	44.5	38.6	46.2	37.5
Other regions	665.4	51.3	55.5	61.4	53.8	60.5
<u>Total</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Source: Report on Mining and Manufacturing Survey. EPB 1977.

While Seoul and Busan remain the largest industrial centers, marginal improvements have taken place between 1974 and 1977 in the redistribution of industrial employment outside these areas. This may be the first sign that government policies aimed at a better distribution of employment are having an impact. Government policies aiming at reducing the congestion of Seoul and Busan include severe restrictions on industrial expansion in these two cities, a program of financial assistance for the relocation of industries, the promotion of new industrial estates such as the Pohang, Ulsan and Yeosu complexes and the Saemaeul Movement, initiated in 1971, for creating off-farm employment in rural areas.

Factor Use and Efficiency

1.08 The main elements which have contributed to the rapid expansion of the manufacturing sector are (a) a high rate of investment and (b) efficiency in factor use, both capital and labor.

1.09 Gross Fixed Capital Formation. Real fixed investment increased sharply by an average of 33% p.a. over the two-year period 1977-78 and slowed down to 9.6% in 1979. As a result, the ratio of gross fixed capital formation to GNP rose in real terms from 25.9% in 1976 to 37.1% in 1978 and edged up further in 1979 to 38%. Housing and manufacturing were the leading investment sectors. Manufacturing investment increased by a phenomenal 63.4% in real terms in 1978 and a further 17.4% in 1979. As a share of total fixed investment, manufacturing reached 38% in 1979 compared to an average of 21.9% over the period 1975-77. Within manufacturing, a major part of investment was directed towards fulfilling ambitious government targets for heavy industry. Heavy industry accounted for 78.9% of total manufacturing investment in

1977-79. Investment in light industry accounted for the remaining 21.1% and lagged significantly behind the Fourth Plan targets. Investment in heavy industrial projects with long gestation periods did not lead to an immediate increase of productive capacity and contributed to aggravating the imbalance between domestic demand and supply. Indications are also that investment in heavy industries has exceeded in some instances the levels dictated by market size, financing capacity and technical capability. Overinvestment is already apparent in certain branches of industry. In view of these structural problems and of the overheating of the economy to which investment in some heavy industries contributed, the Government has taken steps to delay, scale down or cancel several investment projects. An Investment Project Coordinating Committee was set up in 1979 to review investment priorities and projects and to pursue rationalization steps.

1.10 Factor Efficiency. Efficiency in factor use has contributed to the high performance of the Korean manufacturing sector. Calculations of incremental capital to output ratios (ICORs) with a one-year lag show a gradual decline over the three consecutive periods 1961-66, 1966-71 and 1971-75, indicating increasing efficiency in the use of capital investment. Inclusion of data for 1976 and 1977 raises the ICOR estimate to 1.012/¹ for the period 1971-77 compared to 0.977 /¹ for the period 1971-75. This may reflect the higher capital intensity of manufacturing investment in recent years because of the larger share of the heavy and chemical sectors. Efficiency in capital utilization is also evidenced by the rapid growth in industrial capacity utilization over 1971-77; over the past two years, however, excess capacity has appeared in some branches of industry. Labor productivity measured by the ratio of value added per employee has also been increasing in all manufacturing subsectors over the period 1970-76 and was sufficient to absorb wage increases. Over the period 1977-79, however, productivity gains have lagged behind the rapid growth in real wages. Rising labor costs have contributed to the decline in the competitiveness of Korean exports in 1978-79.

Financial Structure of Enterprises

1.11 The tight controls exercised by the Government on credit allocation by financial institutions have enabled the direction of investment patterns according to national priorities. The system of preferential credits has also encouraged excessive credit demand and has resulted in the very high indebtedness of manufacturing enterprises. The average aggregate debt/equity ratio of manufacturing enterprises which stood at 2.7:1 in 1973 following the financial measures of 1972, has increased steadily and reached 3.7:1 in 1978 to 3.6:1 over the period 1976-78. The long-term debt/equity ratio, however, reached only 1.5:1 in 1978, reflecting an excessively large share (58%) of short-term borrowings in total debt. The 1979-80 economic recession has induced greater reliance on short-term borrowings to finance inventory build up. The average aggregate debt/equity ratio of manufacturing enterprises is now estimated at about 4:1. The average interest rate paid on borrowings, short- and long-term, ranged from 12% to 13% over the period 1976-78. Profitability measured in terms of net income to total assets has declined marginally from 3.2% in 1976 to 2.7% in 1978 but remained satisfactory.

¹ Based on 1970 constant prices.

Industrial Policies

1.12 The phenomenal growth of the manufacturing sector was, to a large extent, made possible by efficient and pragmatic government policies. Incentive packages have been developed and adjusted over time to fit evolving priorities for industrial development. With variable emphasis, policies have aimed at the promotion of export industries, import substitution, assistance to small and medium enterprises, geographic dispersal of industry and in the last few years, promotion of skill-intensive sectors with a higher technological content. Export promotion has been the major objective since the early sixties. Subsidies on exports have continued to increase in absolute terms over the period 1975-78 but were insufficient to compensate for the loss of competitiveness induced by Korea's higher prices relative to its major trading partners. As a result, the real effective exchange rate deteriorated sharply for Korean exporters over that period.

1.13 Export Incentive System. Government incentives to exporting industries include tax exemption, accelerated depreciation allowances, refund of import duties on raw materials used for export production, deferred payment of tariffs on equipment and access to subsidized credit. These incentives are administered within the framework of an export targeting system whereby exporting firms set for themselves certain export targets in agreement with overall government objectives. A monthly conference is held to review and adjust targets as well as government policies affecting their implementation.

1.14 While the emphasis has clearly been on export promotion, key import substitution industries have received substantial government support in the form of partial tax and tariff exemptions, as well as protection from competing imports. Production for the domestic market, however, has generally been subject to higher duties, taxes, and interest charges on borrowings. In 1977-78, the Government relaxed a number of import restrictions as part of an import liberalization program to be implemented over a four-year period. Banned items have been abolished; since January 1, 1979, 69% of all import items are subject to automatic approval, 31% are "restricted".^{/1} Tariff adjustments have also been introduced to improve the competitiveness of import substituting industries. The simple average tariff rate has been reduced from 36% to 25%.

Recent Performance

1.15 The rapid growth of the Korean economy during 1977-78 was followed by a recession in 1979. Real GNP growth rate slowed in 1979 to 6.4%, compared to an average of 10.9% p.a. over the period 1977-78. Exports stagnated and a large deficit of \$4.2 billion was recorded in the current account of the balance of payments. Over-expansion of the economy in the period 1976-78 linked with international recession and protectionism may be the root cause of

^{/1} In early 1978, 54% of all items were subject to automatic approval, 41% were restricted and 5% were banned.

the lackluster performance of 1979. The overheating of the economy resulted from expanding incomes and excessive domestic demand, particularly investment demand. In order to quell inflationary pressures, the Government implemented in 1978-79 an import liberalization and stabilization program which included tight monetary and fiscal policies. The resulting slowdown of the economy was sharper than expected because of the continued stagnation of exports and high level of inflation. Further economic adjustments were made in January 1980: the Won was devalued by 16.4% relative to the US dollar, interest rates were raised by 6 percentage points and domestic energy prices increased dramatically.

1.16 The industrial sector provided the major impetus to GNP growth over the period 1977-79. The growth of the manufacturing sector reached an average of 17.5% in real terms over the period 1977-78 but slowed down to 10.6% in 1979. Industry was hard hit by cost-push inflation and by the economic recession of 1979. Seasonally adjusted industrial output in the final quarter of 1979 was 4% below the first quarter level. Tightness in the labor market pushed up unit labor costs by over 20% p.a. during 1977-79 and real wages by 16% p.a. Real wage increases have substantially outstripped productivity gains in recent years and caused an erosion of Korea's comparative advantage in the labor-intensive manufactures which still dominate its exports.

Prospects

1.17 The latest Economic Management Plan of the Government estimates GNP growth rates of 3% and 7.5% in 1980 and 81 respectively. Over the same period, industrial sector growth rates are expected to be 2.8% and 9.1%. Overall investment is projected to decline by 8% in real terms in 1980.

1.18 In spite of the current difficulties, Korea's long-term growth potential remains favorable. Continued stimulation of exports at about 12% p.a. over 1980-81 is crucial for recovery in the economy. At the same time, some restructuring of the economy, particularly in the industrial sector, seems desirable to improve efficiency. Korea's shift from labor-intensive towards skill-intensive industries ought to be pursued but investments in heavy industry need to be carefully reviewed and rationalized to avoid overinvestment and excess productive capacity.

2. THE FINANCIAL SECTOR

2.01 The unparalleled expansion of Korean industry since the early 1960s was made possible by an ambitious investment program coupled with pragmatic financial sector policies. The financial system effectively supported the

growth of industry by mobilizing the necessary foreign and domestic savings and by efficiently channeling these resources toward industrial investment. As a result, Korea's financial sector and institutions have expanded rapidly. From the outset, however, financial institutions and funding mechanisms have been kept under tight government control to ensure the allocation of resources to predetermined priority areas. The system has worked well in the past decade; there is, however, some concern about its ability to respond efficiently and flexibly to the requirements of an increasingly complex and sophisticated economy.

Financing Gross Domestic Capital Formation

2.02 The rapid growth of manufacturing investment over the period 1977-79 was made possible by an equally rapid growth of long-term loans /1 extended by Korean financial institutions to the manufacturing sector. Manufacturing fixed investment increased by an average of 45% p.a. in current prices over 1977-79 and net term lending /2 by an average of 52% p.a. The rapid growth of debt financing suggests that financing patterns have remained substantially unchanged over the past three years and that Korean industries have kept a high level of indebtedness (para. 1.11). Recent Bank surveys of the financing of the industry in Korea indicate that, on average, self-financing by Korean enterprises accounts for only 30% of investment /3 and the remainder is covered by borrowings. This financing pattern stems largely from the availability of debt financing at a low cost relative to other types of funding.

2.03 Current price fixed investment in manufacturing amounted to W 2,174 billion in 1979. Assuming that self-financing accounted for 30%, external debt financing provided the balance, namely W 1,522 billion. External finance was in the form of borrowings from domestic financial institutions and from noninstitutional sources (capital markets, borrowings from abroad and unorganized money market). In 1979, incremental term lending by Korean financial institutions to the manufacturing sector amounted to W 1,067 billion or 70% of the external financing estimated above. Noninstitutional sources provided the balance of W 455 billion, of which about half was generated through issuance of corporate debentures in the securities market and the other half from foreign commercial loans and suppliers' credits./4

/1 Defined as loans with a maturity exceeding one year.

/2 Defined as the increase in term loans outstanding.

/3 20% through retained earnings and 10% by additional equity investment.

/4 This breakdown is highly tentative and based on the assumption that long-term fixed investment is financed out of long-term resources; in fact, the high short-term indebtedness of Korean industry suggests that short-term debt is used in part to finance fixed assets and rolled over.

2.04 The above figures indicate that approximately 50% of manufacturing fixed investment in 1979 was financed by Korean financial institutions, while self-financing accounted for 30% and noninstitutional sources for the remaining 20%. The relative importance of the various Korean financial institutions in supplying long-term funds (defined as loans with a maturity exceeding one year) for industry is shown in the following table:

INCREMENT IN OUTSTANDING TERM LOANS TO MANUFACTURING BETWEEN 1977 AND 1979
(In W billion)

	Amount	%
Commercial banks	530.2	27.4
Korea Development Bank	613.3	31.7
Korea Development Finance Corporation	113.1	5.8
Small & Medium Industry Bank	152.9	7.9
Citizens National Bank	11.8	0.6
Korea Exchange Bank	303.4	15.7
Export Import Bank	155.1	8.0
Life insurance companies	54.2	2.8
Insurance companies	3.7	0.2
<u>Total</u>	<u>1,937.7</u>	<u>100.0</u>

The Korea Development Bank (KDB) is the single largest source of term finance for industry. Commercial banks come next, having in certain years provided in aggregate more funding with a maturity exceeding one year than KDB. However, term lending by the commercial banks is usually for working capital rather than equipment financing and for shorter maturities than KDB's (four to five years on average compared to eight years for KDB). The General Banking Act limits the maturity of commercial bank term lending to ten years. The Korea Exchange Bank has also become an important source of term finance for export industries. The Korea Development Finance Corporation (KDFC), however, has seen its contribution gradually erode from 14% in 1974 down to 4% in 1979 (Annex A, Table 1).

2.05 While commercial banks are an important source of funding with a maturity exceeding one year for industry, their main activity is the supply of short- and medium-term working capital funds. In fact, term lending by commercial banks has remained through the 1970s well below the potential afforded by available term resources such as time and savings deposits (TSD) and equity. Extensive rollover of short-term loans de facto increases term lending but is somewhat less suitable for financing fixed investment. Incremental short-term loans of commercial banks to manufacturing reached W 2,761 billion in the period 1977-79 compared to W 530.2 billion for

long-term loans. Looking at the aggregate short- and long-term resources flowing to industry over 1977-79, commercial banks accounted for 60%; KDB was the next largest supplier with 14.8% (Annex A, Table 2).

Institutional Sources of Funds

2.06 The institutional set-up of the Korean financial sector can be divided into (a) banking (or monetary) institutions which accept deposits from the general public and (b) nonbank financial institutions. Banking institutions /1/ comprise conventional commercial banks, including branches of foreign banks, and six specialized banks./2/ The operations of commercial banks are directly supervised by the Bank of Korea (BOK) while specialized banks are under the control of the Ministry of Finance (MOF).

2.07 Annex A Table 3 shows the assets structure of the Korean financial system. Over the period 1975-79, some deepening of the financial sector has taken place as reflected by the growing importance of nonbank institutions. The share of nonbank financial institutions in the total gross assets of the financial sector reached 26.2% in 1979 compared to 23% in 1975. This sign of maturity notwithstanding, the banking system including BOK still accounted for 73.8% of the sector's total assets in 1979; BOK and the commercial banks together accounted for 51% of total financial sector assets.

2.08 The Commercial Banks. The commercial banking sector in Korea comprises: (a) five government controlled commercial banks with a nationwide network of branches; (b) ten private banks with operations localized in each province; and (c) branches of foreign commercial banks. Commercial banks are subject to the provisions of the General Banking Act. In aggregate, the assets of commercial banks accounted for 38.9% of the total assets of the financial sector in 1979, up from 37.7% in 1975; the 1979 component ratio of 38.9% could be broken down into 31.5% for the five nationwide banks, 4.1% for the ten regional banks and 3.3% for branches of foreign banks. The commercial banking group remains by far the largest source of funds for the manufacturing sector, but its importance has been slowly declining over time in relative terms. The commercial banks accounted for 54.7% of the increase in outstanding loans to the manufacturing sector in 1979 compared to 73% in 1974. Their operations, however, are heavily skewed towards short-term

/1/ Also referred to as "deposit money banks" (DMBs).

/2/ The Korean Exchange Bank for foreign trade; the Small and Medium Industry Bank for SMI; the Citizens National Bank for consumer finance and SSI; the Korea Housing Bank for housing finance; the National Agricultural Cooperative Federation for agricultural credits and the National Fisheries Cooperative.

lending, in part, because they lack the expertise required to carry out the appraisal of long-term investment proposals. In 1977, short-term loans accounted for approximately 97% of the increase in the total commercial banks portfolio; in 1979, the ratio was still as high as 70%.

2.09 Deposits represent the major source of funds of commercial banks. In 1978, demand and savings deposits together accounted for 54.3% of total aggregate liabilities (including equity). This ratio was substantially lower than the 71.1% reached in 1970. Demand deposits had marginally increased their share of total resources to 21.4% in 1978, but time and savings deposits had declined steadily from 52.4% in 1970 to 32.9% (Annex A, Table 4). This sharp decline could be related to the 1972 reduction in interest rates and the negative real deposit rates which resulted.

2.11 Specialized Banks. The six specialized banks were created by the Government in the 1960s to service particular economic sectors. The specialized banks were established under separate legislation. They are not subject to the General Banking Act and lie outside the jurisdiction of the Central Bank's regulations. Their operations are supervised directly by MOF. Their aggregate assets accounted for 22.6% of the total assets of the financial sector in 1979, down from 23.6% in 1975. The Korea Exchange Bank, which was established in 1967 to take over the commercial foreign exchange transactions of BOK, accounts for more than half the total assets of specialized banks. Demand and savings deposits represent the main source of funds of specialized banks; they accounted for 58% of total liabilities /1 and equity at end-1979.

2.11 Nonbank Financial Institutions. The declining share of the monetary system, i.e., specialized banks, commercial banks, and BOK /2 in the total assets of the financial sector reflects a certain deepening of the financial system and the growing importance of nonbank financial intermediaries. The average annual growth rate of the assets of nonbank financial institutions, reached 17.2% in real terms over the period 1975-79 compared to an average of 13.7% for the financial sector as a whole. Their share of total assets consequently increased from 23.2% in 1975 to 26.2% in 1979. Nonbank financial intermediaries comprise: (a) four development banks /3; (b) the trust account of the Bank of Seoul and Trust; (c) life and nonlife insurance companies; (d) short-term finance companies (STFC); (e) mutual savings and finance companies; (f) postal savings accounts; and (g) securities firms. Of the seven types of

/1 Excluding guarantees issued and outstanding.

/2 BOK's share of financial sector assets declined from 15.5% in 1975 to 12.4% in 1979.

/3 The Korea Development Bank; the Korea Development Finance Corporation; the Korea Export-Import Bank; and the Korea Land Development Corporation, formerly the Land Bank.

nonbank intermediaries, development banks constitute the largest group, accounting for 59% of the total assets of nonbank financial intermediaries in 1979.

2.12 The Bank Group is associated with the two development banks which are active in the industrial sector: KDB and the KDFC.^{/1} The Government-owned KDB is the largest financial institution in Korea. As the principal agent of government long-term funding programs, it deals primarily with large public and private sector enterprises in power, transportation and manufacturing. The privately owned KDFC also finances relatively large industrial enterprises but only in the private sector.

Noninstitutional Sources of Funds

2.13 Noninstitutional sources of funds include (a) the unorganized money market (UMM) which is primarily a source of short-term resources; (b) direct corporate borrowings from outside Korea; and (c) the Korean capital market. Estimates of the importance of the UMM are made difficult by the very nature of the transactions undertaken and by the fact that a substantial part of the lending operations of STFCs actually utilize "recycled" UMM resources. Among foreign sources of funds, medium-term suppliers' and buyers' credits provide substantial resources for Korean industries (Annex A, Table 5). These direct borrowings from abroad are classified as a noninstitutional source of funds but their availability is usually dependent upon a counter guarantee from a local financial institution.

2.14 Other noninstitutional sources of funds comprise direct foreign equity investments and the securities market. Direct foreign investments are restricted by the Government to specific sectors; they amounted to US\$124 million in 1979. The stock and bond markets, particularly the latter, have developed over the past few years into important sources of finance for the manufacturing sector. The importance of the stock market as a source of term finance has fluctuated during the 1970s. Stock market activity expanded rapidly through the mid-70s as a result of government incentives to induce firms to go public. The main incentive was in the form of a 13% tax differential between closed and listed firms. This differential has been reduced to 5% in 1978. New listings increased by 10% only in 1978 and the number of listed companies actually declined to 355 in 1979. Trading also declined and the stock price index plummeted from 207.2 at end-1978 to 169.1 at end-1979. Funds raised by manufacturing enterprises on the stock market amounted to W 141.1 billion in 1978 and W 107.3 billion in 1979.

^{/1} The Bank has also made three loans to SMIB and a first loan to CNB in 1980. Both institutions are considered as deposit money banks because they accept deposits from the general public. However, a substantial part of their operations is, in fact, development financing.

2.15 Since 1977, the corporate bond market has been supplying more resources /1 to the manufacturing sector than the stock market. The value of new bond issues has been increasing at an average of 80% p.a. over 1977-79. New offerings reached W 465.2 billion in 1979. The effective yield of corporate bonds varies from 33.5% to 36.6% p.a. for a 2-year maturity following the January 1980 reform of the interest rate structure. The rapid growth of the bond market is, to a large extent, due to the favorable tax treatment granted to bond buyers.

Government Control and Direction

2.16 The development of Korea's economy over the past 20 years has been directed by comprehensive governmental planning designed to influence private sector decisions and to provide the means, including finance, for their implementation. Strict control over the financial system has thus been viewed by the Government as an efficient tool for enforcing tactical decisions within the economic development strategy. The operations of the financial sector are characterized by close government controls on the day-to-day management of the institutions, on their funding and on their allocative function. The Government directly owns controlling participations in the share capital of four of the five nationwide commercial banks and indirectly controls the fifth one. The Government also has majority holdings in the six specialized banks and is in full control of the Korea Development Bank and the Export-Import Bank. The top management of these institutions is usually appointed directly by the highest authority on the basis of recommendations by the Minister of Finance. Altogether, the BOK, the five commercial banks, the six specialized banks, KDB and Exim Bank account for more than 80% of the assets of the financial system. KDFC is the only major development institution which is wholly privately owned.

2.17 Government controls on fund mobilization by the financial sector are exercised in various ways: (a) the Government is the main participant in the share capital increases of commercial and specialized banks; (b) the Government supplements DMB and KDB resources with funds earmarked from the budget and from special funding programs such as the National Investment Fund (NIF);/2 (c) BOK has opened rediscounting facilities for DMBs, the main one being short-term export credits; and (d) the Government administers interest rates on deposits and other instruments of mobilization such as bonds and debentures. The administrative controls extend beyond government-owned institutions as nonbank financial institutions such as KDFC and the short-term

/1 On the basis of gross offerings; no information is available on redemptions.

/2 Annex C to the KDB Staff Appraisal Report provides a detailed description of the NIF program; para. 2.22 of this report gives a summarized analysis.

finance companies are expected to "follow" the interest rates set for DMBs. Numerous controls also exist on the operations of the securities market.

2.18 Directed Credit. Government controls are pervasive in the area of fund allocation. The administrative guidelines on "Uses of Funds in the Financial Sector" issued by the Monetary Board in 1958 have increasingly been replaced by specific directives to DMBs and KDB regarding not only the allocation of government funds but also the allocation of their own resources to specific priority sectors, subsectors and sometimes individual projects or firms. The system of directed lending which is administered by BOK and MOF provides financing at government behest to recognized prime borrowers and, therefore, severely limits the discretion exercised by financial institutions in fund allocation. The proportion of Government-directed lending has been estimated at about 40% of total DMB lending./1

2.19 Subsidized Credit. An important feature of directed credits is the low interest rate charged on most of the loans, a notable exception being the small industry loans of commercial banks. At least half of the directed loans of DMBs are at concessional rates (i.e., below the normal rate for nonpriority borrowers)./2 Export credits and the NIF program are the main components of subsidized lending by the DMBs and KDB. A rising share of DMB subsidized lending (from 40% in 1971 to 56% in 1978) is for short-term export financing. NIF lending had also increased from 9% of DMB subsidized lending in 1975 to 20% in 1977 (Annex A, Table 6). NIF loans accounted for 38% of KDB's loan portfolio at end-1979 up from 29% at end-1977.

2.20 Export financing is given the highest priority by the Government because export growth is crucial to the Korean economy. The availability of concessional loans for exports is viewed as equalizing the position of Korean exporters with international competitors. These loans are channelled through the commercial banks and can be rediscounted with BOK for 80% of their value. Handling banks receive an interest spread of 5 percentage points. The final lending rate of 9% p.a. was raised to 12% in January 1980 and will increase to 15% p.a. by end-1980. By comparison, the prime lending rate for short-term loans was raised to 24.5% p.a. in January 1980.

2.21 Operation of the NIF started in 1974. Total NIF loans outstanding reached W 1,228 billion (\$2.5 billion) at end-1979. Contributions by banking institutions out of their deposit resources supply approximately 75% of total NIF funding. NIF loans are available primarily for financing equipment purchases with a maximum maturity of 8 years. The NIF program

/1 On an outstanding basis over 1977-78.

/2 Representing about 20% of total outstanding loans.

aims at supporting the restructuring of the industrial sector and therefore places emphasis on assistance to heavy and chemical industries. The commercial banks, the specialized banks and KDB allocate NIF loans; at end-1979 they accounted respectively for 18.2%, 15.9% and 65.9% of outstanding NIF loans. Final lending rates were raised in January 1980 to 21-22% compared to a nonconcessional rate for term loans of 24.5-25.5%. Handling banks operate with a positive spread of 0.5% to 1.5%; the interest rate subsidy is absorbed by the Government.

Efficacy of the Control System

2.22 The efficacy of government controls over the financial system must be judged in terms of (a) impact on financial intermediation; (b) efficiency of resource allocation by institutions; and (c) internal efficiency of intermediaries. These three elements are obviously interrelated.

2.23 Financial intermediation is dependent upon the mobilization of sufficient savings. The ratio of aggregate savings to GNP exceeded 25% through most of the period 1970-79, reaching 35% in 1979. Korea's savings performance has been high by most international standards. The ratio of time and savings deposits to GNP, however, dropped from 23.3% in 1973 to 21.3% in 1974-79. Equity resources and term deposits are the main source of term funding for the commercial and specialized banks. The slow growth of TSD, therefore, affected the capability of these institutions to function as efficient financial intermediaries. TSD interest rates are determined by the Government and have, in real terms, been close to zero or negative since 1972. Low interest rates on financial instruments have caused some financial disintermediation in the household sector whereby household savings have been diverted from deposits into real estate acquisition. The January 1980 upward adjustment of interest rates partly remedied this situation and was followed by a sharp increase in aggregate TSD. Another element of government control on financial intermediation has been the push toward lengthening the maturities of loans by Deposit-Money Banks to expand capital formation. As a result, term lending by commercial banks has increased in absolute and relative terms through the 1970s but has apparently failed to reach the potential afforded by available term resources.

2.24 The allocational efficiency of the system of directed lending has been satisfactory in terms of aggregate flow of funds toward the priority areas of export and heavy industry. It appears, however, that the magnitude of interest subsidies has resulted in excess demand for debt financing and may have led to some misallocation of funds within the too broadly defined priority areas. Favored access to financing for ill-defined priority borrowers may have led to suboptimal investment decisions with respect to product choice, scale of production and capital intensity. Excessive credit expansion has also fueled inflation and has encouraged a high level of indebtedness in the corporate sector. The high indebtedness of Korean industry appears to be worrisome owing particularly to the high proportion of short term debt resulting from easy access to cheap export credits.

2.25 The combination of excess loan demand and government-directed lending has had a detrimental impact on the internal efficiency of intermediaries. The ability of banks to undertake adequate appraisals and to exercise proper business judgment has been restricted. Competition among financial institutions has been severely limited. As a consequence, the transaction costs of commercial banks are high and bad loans are reportedly kept at an artificially low level through reschedulings, refinancing of arrears and rollover of debt.

2.26 Critics of the operations of the Korean financial sector recognize that the system has, in the past, contributed to the phenomenal growth and transformation of the industrial sector in accordance with national priorities. On the other hand, the system was responsible for excessive credit expansion and inflation. Directed lending also has encouraged high debt/equity ratios in the corporate sector and has contributed to excessive investment in some branches of heavy industry. Doubt has been expressed by the Korean authorities themselves about the desirability of maintaining the rigid system of centrally directed lending because of the growing complexity of the economy. The need for fine tuning of investment decisions cannot be flexibly accommodated under the present system. It is recognized that directed and concessional lending should not be discontinued but should be reduced in scope and size to clearly defined priority sectors and branches of industry. At the same time, some liberalization of the operations of the financial sector, particularly of commercial banks, seems desirable and timely.

Reform of Financial System

2.27 Bank surveys of the Korean financial system have led to a number of specific recommendations aimed at improving the efficiency of the financial sector. The main recommendations are summarized below:

- (a) interest rates on time/savings deposits and lending rates should be maintained at a positive level in real terms to encourage a reliable flow of term resources into the DMBs;
- (b) the proportion of directed lending made for specified purposes and borrowers at government behest should be reduced relative to total lending;
- (c) the share of directed lending which commands concessional interest rates, primarily export credits and NIF, should be reduced in scope and volume and the extent of the interest subsidy ought to be reassessed;
- (d) as directed concessional lending is reduced, institutional arrangements for delivery of funds, particularly NIF, ought to be rationalized. Concentration of NIF lending in the specialized banks

and KDB is recommended since these institutions have the necessary expertise in term lending. Commercial banks would be freed to meet other credit needs including export financing;

- (e) more operational discretion in management and operational decisions should be given to the commercial banks to increase efficiency and competition;
- (f) harmonization of foreign currency lending rates and interest spreads ought to be improved;
- (g) monetary and credit control instruments available to the BOK ought to be broadened and made more flexible; and
- (h) the bill market, securities market and housing finance ought to be further developed and encouraged through a comprehensive set of incentives.

2.28 The Government is aware of the shortcomings and inefficiencies of the Korean financial system. A policy dialogue between the Bank and the Government on these matters has been initiated and will be pursued. Interest rates have already been raised in January 1980 with the intention of maintaining real rates at a positive level. A move towards liberalization of the sector has also been announced which, over time, would provide greater autonomy to financial institutions. As a first step in this direction, the Long-Term Credit Bank Law was enacted in November 1979. The purpose of this legislation is to encourage the establishment of a new type of financial intermediaries operating outside the Government's system of directed lending. Long-term credit banks would be privately-owned institutions raising a major part of their resources from the domestic capital market and focusing on long-term lending for industry. In June 1980, KDFC changed its legal status and became Korea's first long-term credit bank.

Lending Rates and Inflation

2.29 The continuing high rate of inflation has been a serious problem in Korea for the past two decades. High inflation has led to a worsening of Korea's terms of trade and to a loss of real income in relation to real production. Despite recessionary tendencies in 1979, wholesale and consumer prices rose by over 18% during the year compared to 12-14% during 1978. Following the January devaluation of the Won and the dramatic increase in domestic energy prices, inflation worsened in early 1980. In the first quarter of the year, the consumer price index increased by 12.1% and the wholesale price index by 22.2%. Annual increases in the consumer price index have been projected at 25.4% and 14.8%, respectively, for 1980 and 1981; actual increases may be higher.

2.30 Domestic Currency Lending Rates. The January 1980 upward revision of the interest rate structure (Annex A, Table 8) brought nonconcessional lending rates for prime borrowers to 24.5% p.a. for working capital and 26.5% for equipment loans with maturities exceeding eight years.^{/1} While the adjustment of domestic currency interest rates to a positive level in real terms is a step in the right direction, additional adjustments seem justified with respect to foreign currency lending rates.

2.31 Foreign Commercial Borrowings. Until June 1980, the lending rate for foreign currency loans funded with Eurodollar commercial borrowings was fixed by MOF at LIBOR + 1% to LIBOR + 1.25% depending on maturity. KDFC is authorized to charge a slightly higher rate of LIBOR + 2%. With six-month Eurodollar rates currently at about 14% p.a. (down from 20% in April 1980) a spread of 1.25% over LIBOR was equivalent to a 15.25% p.a. charge on a dollar-denominated loan. Over the ten-year period 1971-80, the average annual depreciation of the Won vis-a-vis the US dollar was about 6% p.a. In Won terms, a Eurodollar borrowing therefore carried an interest rate of about 21.25% p.a. for the final borrower, compared to the normal rate of 26.5% p.a. on Won borrowings. Admittedly, the same computation in April showed a cost of about 27.25% p.a.; it seems, however, that on average, over a period of several years, access to foreign commercial funds did provide an element of subsidy to the borrower. Given this context, there was little rationale for keeping the interest spread accruing to the financial intermediaries at about 0.5% ^{/2} which was much lower than the 2% spread allowed on foreign borrowings from official sources and was insufficient to cover handling costs. The lower interest spread on foreign commercial borrowings effectively represented a disincentive to more mobilization of resources. In June 1980, an interest spread of about 2% was authorized by the Government as a means of reducing the subsidy to the final borrower and lessening the reliance of financial intermediaries on official sources of funds.

2.32 Foreign Official Borrowings. The effective cost to subborrowers of foreign resources raised from official agencies such as IBRD and ADB is more difficult to estimate in Won terms because of the variable currency mix of disbursements. KDFC has carried out a detailed analysis of the cost of funds under three of the loans it received from the Bank. Under Loan 1145-K0 the nominal borrowing rate from the Bank was 8.5%. In accordance with the standard practice imposed by the MOF, funds were onlent with an interest

^{/1} Working capital loans to nonprime borrowers carry a 25% lending rate and equipment loans a rate of 25.5% for 3-8 years and 24.5% under 3 years.

^{/2} Assuming a borrowing cost for the intermediary of LIBOR + 0.75% and an onlending rate of LIBOR + 1.25%. KDFC has been allowed a margin of 1.25%.

spread of 2% and the foreign exchange risk passed on to the subborrowers. The nominal onlending rate therefore stood at 10.5% p.a. Disbursements of "hard" currencies (Yen, Deutsche Mark and Swiss Francs) which appreciated against the US dollar reached 61% of total disbursements. As a consequence, the effective rate, in dollar terms, for the subborrowers reached 19.5% p.a./1 The average appreciation of the US dollar vis-a-vis the Won reached about 7% p.a. over the loan disbursement period, thus bringing the effective lending rate in Won terms to 26.5% p.a./2 By comparison, KDFC's standard lending rate for domestic currency equipment loans stood at 20.5% p.a. until January 1980 and has since been raised to 26% p.a. Other official loans to KDFC and other financial intermediaries in Korea, including KDB, had a similar effective cost and therefore do not appear to impart any sizeable interest subsidy to the recipients by comparison with Won-denominated loans and with foreign commercial loans.

2.33 Onlending practices for foreign official borrowings, however, do create some distortions in final lending rates due to the government policy of requiring that these loans be onlent with a uniform spread of 2%. With substantially different lending costs over time and between lending agencies, subborrowers from the same institution, at the same time, ostensibly similar in essential characteristics, obtain funds on different terms. It was agreed at negotiations that each financial institution would be allowed to commingle its official foreign resources and that a spread of 2% be applied to the weighted average cost of these funds./3 This results in a uniform onlending rate subject to adjustment as new lines of credit are mobilized from official sources.

Bank Lending Strategy

2.34 Bank lending to Korean industries is effected primarily through specialized long-term financial intermediaries. This type of lending was initiated 12 years ago with a first loan to the Korea Development Finance Corporation (KDFC). The Bank has now established a solid relationship with four Korean Development Finance Companies (DFCs) which, in aggregate, supplied over 50% of the increase in medium and long-term loans extended to the manufacturing sector in 1977-78. The Bank has helped meet the financial needs of medium and large-scale firms primarily through KDB and KDFC./4 The financial support of smaller-scale enterprises by the Bank was initiated in 1975 through a first loan to the Small and Medium Industry Bank (SMIB) and to the Citizens National Bank (CNB) in 1980.

/1 On average over the period 1976-80.

/2 Similar calculations for earlier loans show an effective lending rate in Won terms of 18.5% for Loan 705-KO and 17.4% for 905-KO.

/3 Weighted by the amount of funds available for future lending.

/4 Seven Bank loans aggregating \$320 million have been made to KDFC and three loans for a total of \$252.5 million to KDB.

2.35 The Strategic Role of KDB and KDFC. The long association of the Bank with KDB and KDFC has had a very positive impact in terms of (a) overall resource transfer to the vitally important industrial sector; (b) the building up of large and efficient development finance institutions; and (c) developmental impetus in the financial and industrial sectors.

2.36 KDB and KDFC through the complementary, though distinct nature of their operations occupy a central position in the financial sector and serve as the two major conduits of resource flows to the priority manufacturing sector. Over the period 1974-79, KDB and KDFC jointly supplied 37.5% of all term loans to the manufacturing sector. Bank financial support of KDB and KDFC's operations was instrumental in enabling the two institutions to assume an increasing role in the transfer of resources to the industrial sector.

2.37 The financial and technical support supplied to KDB and KDFC through the Bank's lending operations in the past few years has also had a substantial impact on their efficiency and quality as financial intermediaries. KDB and KDFC have gradually developed into the most efficient intermediaries on the Korean financial scene, and both now rank among the best DFCs with which the Bank is associated worldwide. This is reflected not only in the appropriateness of their operational procedures but also in the quality of their portfolio and in their success at mobilizing foreign currency resources from commercial sources.

2.38 Finally the Bank's support of KDB and KDFC has had an impact which extends beyond the two institutions to the industrial and financial sectors. The developmental role increasingly assumed by the two intermediaries has led to a more balanced sectoral and geographic distribution of industries in Korea and has helped to deepen the structure of the financial sector. Both KDB and KDFC have sponsored the establishment of several specialized financial institutions including leasing companies, investment banks, merchant banks and short-term finance companies as a means of increasing the range of financial services available in Korea.

2.39 Satisfactory as this performance and impact on the overall economy might be, an analysis of the operations and efficiency of both KDB and KDFC shows a number of shortcomings stemming, in part, from the financial environment in which they operate. The Bank now proposes to use its lending operations to KDB and KDFC as a vehicle for addressing with the Korean Government the general financial sector issues which affect the efficiency of individual institutions.

2.40 The recent Economic Report prepared by the Bank /1 indicates that inefficiencies have surfaced in the structure and operations of the industrial sector in Korea and may have contributed to the lackluster performance of the Korean economy in 1979. Furthermore, the Economic

/1 "Current Developments and Policy Issues," dated May 20, 1980.

Report also recommends that the Government consider undertaking a comprehensive reform of the financial system. Such a reform would play an important complementary role in improving the performance of the industrial sector. The Government has informed the Bank in a series of discussions over the past few months that it is in general agreement with these policy recommendations and is committed to undertaking a major reform of the financial system.

2.41 The inefficiencies identified in the Bank's review of the industrial and financial sectors transcend individual financial institutions. While past DFC lending has been efficient and has helped reach lending objectives, the changed circumstances facing the economy and the expanding demands placed on financial intermediaries suggest that the Bank's involvement in financial issues needs to be broadened from the narrow project focus of the past. The Bank has acquired detailed knowledge of the workings of the financial system and is in the process of developing, in collaboration with the Korean authorities, the blueprint of a scheme designed to make the system more responsive to the needs of a rapidly maturing industrial sector which operates in an increasingly competitive international environment.

2.42 Bank lending for industry should now be tailored to accommodate these broader sectoral objectives. While the format of industrial lending will retain the past DFC lending approach, these operations will be used as a springboard for reaching other important objectives beyond resource transfer and institution-building objectives. Taking advantage of the simultaneous need to replenish the long-term foreign exchange resources of KDB and KDFC, the Bank invited the Government to negotiate both loans at the same time as a vehicle for discussing further the financial sector policy recommendations. A common understanding was reached at negotiations regarding Korea's longer-term strategy for improving efficiency in the financial sector. As a first step, a package of specific policy measures and supplementary studies to be implemented by the Government and KDB over an appropriate time frame was agreed upon which would provide a linkage between financial sector issues and the proposed KDB and KDFC operations. The proposed projects would support the first stage of a comprehensive reform of the financial sector. At negotiations, agreement was reached with the Government on a "Statement of Korea's Financial Sector Policy Improvements" expressing the broad objectives of the financial sector reform and outlining a number of policy measures to be implemented in an agreed time frame. Other financial sector issues, requiring further study will be discussed with the Korean Government in the context of forthcoming Structural Adjustment Loans and future financial sector loans.

3. THE KOREA DEVELOPMENT FINANCE CORPORATION /1

Background

3.01 Bank lending to Korean industries is channeled primarily through specialized long-term financial intermediaries. This type of lending was initiated 12 years ago with the first loan to the Korea Development Finance Corporation (KDFC). The Bank has since established a solid relationship with four Korean Development Finance Companies (DFCs) which, in aggregate, supplied over 50% of the increase in medium and long-term loans extended to the manufacturing sector in 1977-78. The Bank has helped meet the financial needs of medium and large-scale firms primarily through KDB and KDFC./2 The financial support of smaller-scale enterprises by the Bank was initiated in 1975 through a first loan to the Small and Medium Industry Bank (SMIB) and to the Citizens National Bank (CNB) in 1980.

The Role of KDFC

3.02 KDFC was incorporated in 1967 and remains, to date, the only privately owned development finance company in Korea. KDFC was established with the active support of the World Bank Group as a joint venture between domestic and foreign investors including the International Finance Corporation (IFC) and foreign commercial banks. In June 1980, KDFC successfully completed its transformation into a multipurpose financial institution by changing its legal status and quintupling its share capital. KDFC became the Korea Long-Term Credit Bank (KLTCB), the first institution to be established under the recently enacted Long-Term Credit Bank Law (December 1979).

3.03 KDFC is a much smaller institution than KDB. At the end of 1979, it had a total staff of 163 and total assets of W 209 billion (\$431 million) which represented less than 0.5% of the total assets of the financial sector. KDFC has only one branch office, in Busan. At end-1979, its outstanding loan portfolio of W 184.5 billion was equivalent to about 8.6% of KDB's portfolio. KDFC's status as a private institution has precluded its participation in the Government's directed and subsidized lending programs./3 Nevertheless, a review of KDFC's operations shows that its lending has been focused on financing priority sectors within manufacturing. The manufacturing sector accounted for 67% of KDFC's outstanding loan portfolio at end-1979.

/1 KDFC became the Korea Long-Term Credit Bank (KLTCB) on June 2, 1980. In this report, the institution is referred to alternatively as KDFC and KLTCB depending on the context.

/2 Seven Bank loans aggregating \$320 million have been made to KDFC and three loans for a total of \$252.5 million to KDB.

/3 A description of these programs is given in paras. 2.19 through 2.22.

3.04 The range of financial services which KDFC was authorized to provide included (a) medium- and long-term loans in foreign and domestic currencies; (b) equity investments through underwriting and direct participation; (c) payment guarantees for procurement of machinery and equipment; (d) guarantees and underwriting of corporate securities; and (e) technical and managerial consulting services. Notwithstanding this wide range of services open to KDFC, resource constraints have in practice compelled this institution to operate primarily as a relender of long-term foreign currency resources. As of December 31, 1979, 96.3% of KDFC's outstanding loan portfolio was in foreign exchange. Because of a shortage of domestic currency resources, KDFC does not finance the short-term working capital requirements of industry and its long-term domestic currency lending operations are limited. KDFC's share of the increase in term loans, domestic and foreign, to manufacturing reached 5.8% over the period 1977-79, significantly higher than its 2% share of total loans (short- and long-term). Over the period 1973-76, KDFC's foreign currency lending was nearly as large as KDB's.^{/1} Starting in 1977, however, the growth in KDB's foreign currency lending has outpaced KDFC's. In 1979, KDFC's foreign currency commitments reached \$125.3 million compared to \$423.5 million for KDB.

3.05 While KDB's operations encompass both the private and public sectors, KDFC's charter restricts its activities to the private sector. KDFC provides financing to relatively large enterprises; its clients, however, are at the lower end of the "large industry" spectrum and tend to be firms which are not actively backed by the Government's system of directed lending. Since the major institutional sources of term lending have been subject to government direction, KDFC has served as a source of funds for private entrepreneurs who have chosen or been obliged to operate outside the system of directed credits.

3.06 Unlike KDB, KDFC was not precluded from lending to small enterprises ^{/2} and has done so directly and through cofinancing arrangements with some of the regional commercial banks (RCB). About 20% of KDFC's total loan approvals over 1975-79 were for small industry projects.

Impact of Bank Lending to KDFC

3.07 KDFC's association with the Bank Group dates back to over 12 years. In that period, KDFC has developed into a highly successful financial institution and one of the best DFCs with which the Bank is associated worldwide. KDFC's total assets have increased from W 3.9 billion at

^{/1} KDFC's cumulative commitments reached \$160.7 million in the four-year period as against \$185.4 million for KDB.

^{/2} i.e., enterprises employing less than 300 persons or having assets of less than W 500 million.

end-1968 to W 209.2 billion at end-1979 representing an average growth rate of 43.5% p.a. Loan approvals have similarly increased from W 1.3 billion in 1968 to W 63.7 billion in 1979, an average growth of 42.5% p.a. The financial and technical support supplied to KDFC through previous Bank loans has had a substantial impact on the allocation of resources to the industrial sector, on KDFC's efficiency and quality as a financial intermediary and has also had a broader impact on the industrial and financial sectors through the important developmental activities carried out by KDFC. A detailed analysis of KDFC's operations, institutional strengths and organization, and financial performance is given in Annex B. The following paragraphs provide a summary review of these aspects.

Resource Allocation

3.08 KDFC raises its resources independently from the Government /1 and has not been required to participate in the administration of the government sponsored special funding programs. Although KDFC does exercise full discretion in its lending decisions its resource allocation has responded very closely to government priorities. KDFC's operational priorities and lending objectives are outlined in a Policy Statement adopted in 1967. Short-term objectives are outlined in successive Development Strategy Statements formulated in consultation with the Bank and revised and updated every two years. In the period 1968-79, the manufacturing sector accounted for 65.2% of KDFC's aggregate loan approvals and in response to the Government's emphasis on deepening the industrial structure, the share of heavy and chemical industries in KDFC's total lending for manufacturing has increased from 53% over the period 1968-74 to 76% over 1975-79. KDFC has also been active in promoting small-scale industry through innovative financing mechanisms with regional banks.

3.09 Over the past few years, KDFC has effectively contributed to the development of the industrial sector by allocating resources to projects which have proved financially and economically sound. From its establishment in 1967 through the end of 1979, KDFC had approved financial assistance to 513 projects with total project cost of W 682 billion (\$1.4 billion) of which KDFC financed about 36%. In 1979, KDFC approved 96 projects requiring loans aggregating W 63.7 billion (\$131 million). At end-1979, KDFC's outstanding portfolio amounted to W 185.3 billion and comprised 273 client companies.

3.10 KDFC's internal procedures governing project appraisal and supervision as well as procurement and disbursement have been kept under constant review and have improved regularly to their very satisfactory current level.

/1 With the qualification that foreign borrowings from official sources do require a government guarantee, and with the exception of a subordinated government loan obtained at KDFC's inception (para. 3.18).

Procurement procedures are detailed in para. 2.13 of Annex B. The average size of KDFC's subloans under the latest Bank loan (1635-K0) was relatively small at \$1.2 million. Moreover, close to 84% of the loan amount was allocated to expansion projects. As a consequence, few projects qualified for international competitive bidding. Limited competitive bidding accounted for 44% of all procurement contracts. KDFC's procurement procedures are satisfactory to the Bank. All procurement contracts are subject to KDFC's prior review and approval. The quality of KDFC's appraisal of investment proposals is such that its appraisal reports have been used as training material by other financial institutions both within and outside Korea. This high quality is also reflected in KDFC's very sound loan portfolio. At end-1979, one single loan accounting for 0.2% of KDFC's outstanding loan portfolio had been in arrears for more than three months. Total arrears of principal and interest represented 0.04% of the loan portfolio. In 1979, KDFC rescheduled three loans representing 0.8% of the end-of-year loan portfolio. By any standard, KDFC's loan portfolio is of excellent quality. Financial rates of return ranged from 16.4% to 37.7% for subprojects financed out of the latest Bank loan to KDFC, economic rates of return ranged from 11% to 48.6%.

Institutional Capability

3.11 KDFC's success in evolving into an important source of long-term financing in Korea is due primarily to the exceptional quality of its management and organization. KDFC's management has been able to combine a rapid growth of operations with sound financial administration. Thoughtful advance planning has led to successive and timely changes in KDFC's organizational setup, and to its recent transformation into a long-term credit bank.

3.12 KDFC's operational efficiency is reflected in the low level of its administrative expenses which have declined steadily from 1.3% of average assets in 1975 to 0.9% in 1979. Earnings as a percentage of total assets have declined from 2.3% in 1975 to 1.8% in 1979 owing to a rapid increase in interest expenses. A higher gearing ratio (9.1:1 in 1979) has, however, maintained the return on equity at a satisfactory level (18.8% in 1979) and has enabled KDFC to distribute cash dividends of 20% of par in 1976-78 and 23% in 1979. Despite this relatively high level of dividend payments, retained earnings have been substantial. The need to maintain a satisfactory level of profitability and dividends was essential for a privately owned institution like KDFC. KDFC's policy of distributing satisfactory cash dividends was instrumental in enabling the quintupling of its share capital in June 1980 in order to qualify as a long-term credit bank. The concern of KDFC's management to maintain profitability at a satisfactory level has not been detrimental to the institution's developmental activities.

Developmental Impact on the Financial Sector

3.13 A detailed review of KDFC's promotional activities is shown in Annex B. Aside from the technical and managerial assistance normally provided by development finance institutions, KDFC has been particularly active in conducting in-depth studies of selected industrial subsectors. More importantly, KDFC has contributed to the development of the Korean financial system by promoting the establishment of several specialized financial institutions.

3.14 In 1972, KDFC and IFC jointly sponsored the first short-term finance company to be established in Korea. Subsequently, 15 other short-term finance companies were established as an alternative to the high-cost short-term money available from the unorganized money market. In 1974, the Korea Institute of Science and Technology (KIST) established with KDFC a joint venture company for promoting the commercial exploitation of patents and technical processes developed by KIST. Finally, KDFC was the promoter and is the largest shareholder of a leasing company sponsored jointly with IFC and Orient Leasing of Japan in 1975. KDFC also has entered into cofinancing arrangements with four of the ten regional commercial banks with the aim of broadening the geographic dispersal of its operations and of increasing its financial assistance to small-scale industries. Training courses in project appraisal have been organized by KDFC for the staff of the regional banks which helped improve skills in the commercial banking sector.

3.15 Through the promotion of specialized financial institutions, KDFC has helped broaden the range of financial services available in Korea and has contributed to deepening the structure of the financial system. KDFC's main achievement in developing the financial sector, however, lies in its own conversion into a multipurpose financial institution in mid-1980. This conversion, more than a change of name, represents a considerable broadening of the institution's scope of activities and a quantum jump in the size of its future operations. This transformation aimed specifically at removing the constraints KDFC had faced until then in its resource mobilization efforts.

Resource Mobilization by KDFC

3.16 The financial resources available to KDFC for supporting its operations comprise borrowings and equity resources. KDFC's equity resources are, however, limited (W 19.8 billion at end-1979) and approximately 50% have been used to finance KDFC's investment portfolio and fixed assets. The following table shows that a direct relationship exists between KDFC's lending performance and its ability to mobilize resources (in Won billion).

December 31,	1976		1977		1978		1979	
	Amt.	%	Amt.	%	Amt.	%	Amt.	%
<u>Outstanding Loan Portfolio</u>								
Domestic currency	3.1	4.2	2.6	2.7	4.8	3.4	6.8	3.7
Foreign currency	71.2	95.8	93.0	97.3	137.8	96.6	177.7	96.3
<u>Total</u>	<u>74.3</u>	<u>100.0</u>	<u>95.6</u>	<u>100.0</u>	<u>142.6</u>	<u>100.0</u>	<u>184.5</u>	<u>100.0</u>
<u>Outstanding Borrowings</u>								
Domestic currency	2.0	2.7	2.0	2.1	1.9	1.4	1.9	1.1
Foreign currency	71.2	97.3	92.8	97.9	137.6	98.6	177.8	98.9
<u>Total</u>	<u>73.2</u>	<u>100.0</u>	<u>94.8</u>	<u>100.0</u>	<u>139.5</u>	<u>100.0</u>	<u>179.7</u>	<u>100.0</u>

The amount of domestic currency loans outstanding exceeding its borrowings has been financed by KDFC from its equity resources.

3.17 Foreign Currency Resource Mobilization. Since foreign currency lending accounts for 96-97% of KDFC's portfolio, mobilization of foreign resources is critical. KDFC's performance has been quite satisfactory in this respect and foreign currency borrowings outstanding have grown at about 36% p.a. over the past three years. Until 1975, KDFC relied entirely on official sources of funds (ADB, IBRD, et al) for its foreign currency resources. IFC was instrumental in introducing KDFC to foreign commercial lenders through a \$17.8 million loan syndicated in 1976. In the following years, KDFC raised on its own \$20 million from Citibank in 1977, \$30 million from Deutsche Bank in 1978 and \$50 million from Industrial Bank of Japan in 1979. Commercial borrowings of about \$100 million are expected in 1980 but their availability is uncertain at the moment. The following table summarizes KDFC's mobilization performance on a commitment basis over the period 1976-79 (in \$ million):

	1976		1977		1978		1979		Total	
	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%
Official sources	42.0	70.2	70.0	77.8	100.0	76.9	50.0	50.0	262.0	69.0
Commercial sources	17.8	29.8	20.0	22.2	30.0	23.1	50.0	50.0	117.8	31.0
<u>Total</u>	<u>59.8</u>	<u>100.0</u>	<u>90.0</u>	<u>100.0</u>	<u>130.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>379.8</u>	<u>100.0</u>

Over the four-year period under review, KDFC's aggregate reliance on official borrowings has declined to 69%. It took KDFC a relatively short period of nine years after its establishment in 1967 to start mobilizing foreign commercial borrowings but its name is now sufficiently well established on the market to support increased mobilization efforts from that source. Over the period 1980-82, KDFC expects to reduce further its reliance on official resources to about 50%.

3.18 Domestic Currency Resource Mobilization. KDFC has been much less successful in mobilizing domestic currency resources. Through end-1979, KDFC had mobilized aggregate domestic resources of W 23.4 billion; 42.6% came from its share capital, 33.2% from reserves, and the balance from a government-subordinated loan obtained in 1967 and other provisions.

3.19 KDFC has not been able to mobilize larger amounts of domestic currency resources because, by law, it was not permitted to accept deposits nor to issue debentures for onlending purposes./1 To remove this constraint and expand the scope of its operations, KDFC was converted into a Long-Term Credit Bank (LTCB) on June 2, 1980.

3.20 The preceding review of KDFC's performance in the twelve year period 1968-79 shows that KDFC has accumulated an impressive record of operational growth while steadily developing its institutional strengths and playing a substantial development role. Despite this very satisfactory record, KDFC accounted for only 0.5% of the total assets of the Korean financial sector at end-1979 and its loan disbursements over the period 1971-78 represented no more than 2.1% of current price fixed investment in the manufacturing sector. KDFC has achieved a rapid growth in its loan portfolio at an average rate of 41% p.a. over 1976-79 but its share in total equipment financing by Korean financial institutions has remained stagnant

/1 KDFC, unlike other financial institutions was established as a corporation under the commercial code.

at about 4-5%. The reason for this relative stagnation lies in KDFC's virtual absence from the market of long-term domestic currency financing. KDFC's domestic currency loan portfolio has been growing at a rate of only 19% p.a. over 1976-79 and accounted for less than 4% of the total loan portfolio at end-1979. The constraint was inherent in KDFC's legal status as a corporation rather than a banking institution which prevented the issuance of debentures or other instruments of indebtedness for onlending purposes.

Conversion into a Long-Term Credit Bank

3.21 KDFC's management had the foresight to visualize since the mid-1970s the need for the institution to reassess its long-term strategy and role in the financial system. Management concerns stemmed from the increasingly complex economic environment in which KDFC operated, the growing maturity of the industrial sector and a more competitive foreign currency relending market in Korea (which had been KDFC's main business activity). Korea's declining reliance on foreign savings restricted the future of an institution geared primarily towards the relending of borrowed foreign exchange resources. Simultaneously, the structural deepening of the industrial sector and the growth of a domestic machinery industry increasingly capable of satisfying the equipment needs of Korean industries made the supply of domestic currency financing critical for the growth prospects of long-term credit institutions.

3.22 In 1977, KDFC initiated an internal study of alternative strategies aimed at better tailoring its financial services to the requirements of the industrial sector. The Bank and IFC assisted KDFC in this study which was finalized in mid-1978. The study concluded that KDFC needed to change its legal status as a prerequisite to diversifying and expanding its operations.

3.23 KDFC acknowledged the fact that the composition of its resources was "unbalanced" because of difficulties in mobilizing domestic currency resources. At the same time, KDFC was concerned by a likely decline in the relative and absolute size of resources available from foreign official sources in view of Korea's economic success and increasing per capita income. This concern was fully justified as is evidenced by the fact that the proposed loan to KDFC/KLTCC amounts to \$90 million compared to the previous loan of \$100 million. Increased reliance on foreign commercial sources was also getting more difficult because of strict government controls on overseas borrowings and the increasing ability of some KDFC clients to borrow from commercial sources directly on terms comparable to those available to KDFC itself. More importantly, KDFC expected to see the overall demand for foreign exchange loans decline gradually and demand for domestic currency increase proportionately. KDFC had no alternative but to increase its domestic currency financing which could only be achieved through a change in its legal status.

3.24 There appeared to be good business prospects for a privately-owned financial institution undertaking long-term domestic currency financing. The long-term domestic currency resources required by a manufacturing sector increasingly geared toward heavy industry could (and still can) only be obtained from KDB and other institutions administering the special lending programs funded by the Government (such as NIF).^{/1} However, the cost of the present government-directed financing system for industrial investment is, however, becoming increasingly onerous for government finances. Its cost is high not only because of the interest rate subsidies but also because of the increasing share of government funded programs in total industrial lending. The Government has already indicated that it wishes to restrict this type of financing to high priority projects genuinely requiring subsidized funds with long maturities. This projected reduction in the scope of government-funded programs in the face of a rising demand for long-term domestic currency financing provides the rationale for the creation of new types of financial institutions able to raise their resources from the domestic capital market rather than from Government. KDFC could become such an institution. Establishment of this new type of financial institutions would be in line with government objectives of increasing savings mobilization from the private sector in replacement of government and foreign savings.

3.25 The magnitude of the domestic resource mobilization effort required of KDFC obviously could not be entirely covered, as in the past, by share capital increases and retained earnings. There were two possible options for resource mobilization, namely the issuance of domestic currency debentures and acceptance of deposits. Both options were, however, closed to KDFC owing to its legal status as a corporation. This status therefore had to be changed.

3.26 KDFC concluded in 1978 that two main alternatives were available, both involving a fundamental change in its legal and organizational set-up. First, it could be converted into a merchant banking corporation to operate under the Merchant Banking Act of 1976. The main focus of Korean merchant banks, however, is on foreign exchange financing through direct borrowings abroad and, indirectly, as intermediates between domestic borrowers and foreign lenders. Four merchant banks currently operate in Korea; none has yet been able to issue domestic currency debentures because of the tax regime

^{/1} See para. 2.22.

applicable to debentures issued by merchant banks and because of a minimum maturity of two and half years stipulated in the law. The second alternative was for KDFC to convert itself into a private long-term credit bank similar to the private long-term credit banks operating in Japan. While the second alternative appeared to be more desirable in the long-run, KDFC was concerned by the absence of the necessary legal basis in Korea and the difficulty of reorganizing a relatively small institution into a much larger multipurpose bank within a short period of time.

3.27 Apprised of the KDFC study proposing a diversification and expansion of operations, the Government reacted very favorably. The Government felt that quick action was required to provide the necessary legal basis for establishment of long-term credit banks patterned after the Industrial Bank of Japan. This approach was justified by the similarities between the highly segregated and specialized structure common to both the Korean financial system and the Japanese financial system. The Government's intention to liberalize the operations of financial institutions and to give a more important role to privately-owned financial institutions was consonant with the promotion of private long-term credit banks.

3.28 The Government moved quickly to draft the necessary legislation in consultation with KDFC and took steps to encourage a rapid conversion of KDFC into Korea's first long-term credit bank. The main difficulty for KDFC was in increasing its paid-in share capital from W 10 billion to W 50 billion, the minimum required capital for a long-term credit bank. The Long-Term Credit Bank Law was enacted in December 1979. In May 1980, KDFC's paid-in share capital was increased to W 50 billion. On June 2, 1980, the Korea Long-Term Credit Bank opened for business. In July 1980, KLTCB successfully completed its first issuance of W 10 billion in domestic currency debentures. KDFC's success in quintupling its share capital by raising the necessary resources from the private sector is yet another indication of its efficiency and of the confidence it enjoys from its shareholders.

3.29 In February 1980, a 50% stock dividend increased KDFC's paid-in share capital to W 15 billion. The remaining W 35 billion was raised from existing and new shareholders. The new shares were issued at par although their market price was substantially lower following the distribution of a 50% stock dividend. IFC's support through a \$2.29 million subscription to KDFC's capital increase /1 was decisive in securing the subscription of the other foreign shareholders, who currently hold 21.58% of KLTCB's share capital. Unsubscribed shares totalling W 21.6 billion were placed by KDFC on a private basis with business/industrial groups in Korea.

/1 IFC currently holds 5% of the share capital of KLTCB.

KLTCB's Prospects

3.30 Organization and Staffing. In order to accommodate the diversification and expansion of operations resulting from its transformation into an LTCB, KDFC underwent a reorganization in April 1980 with the creation of three new departments. The new departments are respectively in charge of: (a) domestic and foreign exchange business; (b) underwriting and sale of securities; and (c) acceptance of deposits and short-term financing. Recruitment and training of staff was initiated in late 1979. By end-1980, KLTCB expects its total staff strength to reach 245 persons. In the three-year period 1980-83, KLTCB's staff would double.

3.31 Development Strategy. KLTCB's development strategy for 1980-81 aims at identifying and developing projects which: (a) expand employment opportunities; (b) enhance production efficiency; and (c) consume less energy. Continued support will be given to smaller industries with about 20% of total lending directed to small- and medium-scale enterprises. Operational guidelines and procedures are being developed to regulate KLTCB's new activities.

Projected Operations

3.32 Domestic Currency Lending. KDFC's main objective in obtaining from MOF a license to operate as an LTCB was to allow the issuance of long-term debentures in domestic currency. Acceptance of deposits from corporate borrowers is also authorized but Article 2 of the LTCB Law states that issuance of debentures should be preferred as a source of finance for term lending. The increase in KDFC's share capital has brought in sufficient resources to cover most of KLTCB's domestic currency requirements in 1980-81. KLTCB, however, planned to start issuing domestic currency debentures of W 10 billion in 1980. Issuances in 1981 and 1982 were projected at W 30 billion and W 50 billion respectively. MOF has ruled that, as with KDB Bonds, interest on the KLTCB debentures would be tax exempt./1 KLTCB plans to issue discount debentures with maturities of one to three years /2 and coupon debentures with maturities of two to five years./3 Nominal and effective yields would be marginally higher than KDB bonds to compensate for the government guarantee available on KDB issues. On current assumptions, the average funding cost to KLTCB would be 31.1% p.a. including issuing expenses.

/1 This feature is particularly attractive for corporate buyers who would otherwise be liable to the full corporate income tax. The tax payable by individual bond purchasers is only 5%.

/2 With effective yields of 28.5% to 29.3%.

/3 With effective yields of 29.3% to 31.1%.

3.33 KLTCB is allowed by MOF to charge nominal interest rates on its domestic currency loans at about two percentage points above KDB's rates for nonpriority borrowers, i.e., 28% to 28.5% p.a. With interest payments at front, the effective yield ^{/1} to KLTCB would be 33.7% to 34.4%. Given a cost of debentures of 31.1%, the interest spread accruing to KLTCB could reach 2.5% to 3.2%. KLTCB's assumptions appear to be reasonable. Successful issuance of domestic currency debentures would allow a sizeable expansion of KLTCB's operations and would contribute to the development of the Korean bond market. KLTCB expects its domestic currency lending to reach the equivalent of \$55 million and \$75 million on an approval basis in 1980 and 1981, respectively. By 1982, domestic currency lending would represent 43% of total lending operations compared to 5.4% in 1979. Domestic currency lending is forecast to increase dramatically from W 3.2 billion in 1979 to W 152 billion in 1984, representing an average growth rate of 116% p.a.

3.34 Foreign Currency Lending. Foreign currency loan approvals are projected to grow at an average of about 10% p.a. over 1980-84 compared to a historical growth rate of 31% p.a. over 1976-79. The conservativeness of the foreign currency business projections is based on KLTCB's expectation of a slowdown in demand for foreign currency funds. Moreover, KLTCB will focus on developing its domestic currency lending operations. A higher level of foreign currency lending might be achieved if foreign borrowings were to exceed projections. This is doubtful considering that KLTCB's borrowing program is already quite ambitious. KLTCB expects to mobilize a total of \$840 million over 1980-84 of which \$370 million (including the proposed \$90 million loan) would come from official sources and the balance of \$470 million would be mobilized from commercial sources. The ratio of commercial to official borrowings was 35:65 in 1978-79; the projected ratio for 1980-82 is 48:52 and 66:34 in 1983-84. KDFC had uncommitted foreign currency resources of \$81.5 million at end-1979 which was not enough to cover projected commitments of \$136 million in 1980. Assuming that the proposed Bank loan becomes effective in early 1981, it would cover approximately 28% of KLTCB's projected foreign currency commitments (\$325 million) in 1981-82.

Financial Forecasts

3.35 KLTCB's total gross income is expected to double in 1980 as a result of the January 1980 increase in domestic currency lending rates and of the increased income derived from foreign currency loans following the 20% devaluation of the Won. KLTCB's net return to total assets is expected to increase from 1.8% in 1979 to 2.1% in 1984. The debt/equity ratio which temporarily exceeded the contractual limit of 10:1 in the first quarter of 1980 had declined to - at the end of June 1980, following the increase in KDFC's paid-in share capital. A ratio of 4.8:1 is expected at end-1980 with a slow increase over 1981-84 to 7.9:1 by end-1984.

^{/1} KLTCB actually plans to supply its domestic currency financing by purchasing corporate debentures issued in the name of its borrowers.

4. THE PROPOSED BANK LOAN

Objectives and Justification

4.01 KDFC's establishment as a private development finance institution in 1967 was made possible by the strong support of the Government and the active assistance of the Bank Group which contributed to the initial capitalization of KDFC through a first IBRD loan of \$5 million and an equity participation by IFC. In June 1980, KDFC successfully completed its transformation into Korea's first Long-Term Credit Bank. This transformation into a financial intermediary of a new type was in keeping with the pioneering role which KDFC has played in the Korean financial sector over the past 12 years. Once again, KDFC's transformation into KLTCB was made possible by the strong support of the Korean Government. Once again, IFC has played a crucial role in ensuring the participation of foreign shareholders in the quintupling of KDFC's share capital. And once again, the Bank is called upon to support this quantum jump through a new lending operation.

4.02 Although KDFC has received seven Bank loans totalling \$320 million since its establishment, the proposed \$90 million loan would not be merely a repeat operation. The qualitative and quantitative transformation of KDFC's operations which is expected to take place in the next few years and which the proposed loan would support, is expected to have a broader impact on the financial sector as a whole. The Government views KLTCB as the prototype of Korea's future private financial institutions. The establishment of KLTCB is expected to "help stimulate the modernization of the Korean financial system."

4.03 The impact which the Government expects on the financial sector as a whole from the reorientation of KDFC's operations provides the rationale for the simultaneous negotiation of the proposed loan to KLTCB with the other Bank loan to KDB against the backdrop of a broader sectoral context. The financial sector reform which was discussed at negotiations aims primarily at relaxing some of the government controls on the operations of financial intermediaries. The establishment of KLTCB is in line with this government concern to liberalize the financial system in Korea. The sectoral objectives of the KDB and KLTCB loans are therefore largely complementary. The KDB project would support a reorganization of the government system of directed lending while, on the other hand, the KLTCB project would strengthen the capability of a financial institution of a new type operating outside the public sector. This dual approach is expected to result in an increased flow of long-term resources for industry and in greater efficiency in fund allocation.

4.04 As with the proposed loan to KDB, an additional objective of the project would be to help reduce the high indebtedness of Korean industries. KLTCB would be required to make its financial assistance conditional upon

adequate equity contributions by project sponsors and to assist in strengthening the financial structure of its borrowers. To this end, as agreed at negotiations, access to Bank funds would be limited to those enterprises which are committed to improving their financial structure and which have a debt/equity ratio (including the proposed subloan) not in excess of 5:1.

4.05 KDFC's past performance in utilizing previous Bank loans has been highly satisfactory from both the institutional and developmental viewpoints. KDFC has been a remarkably efficient intermediary for allocating funds, including Bank resources, to Korea's key industrial sector. Through KDFC as an intermediary, Bank resources totalling \$314.2 million on a commitment basis had been allocated, as of end-July 1980, to 350 economically and financially viable projects in the manufacturing, agro-industry, transportation and construction sectors.

4.06 The proposed Bank loan of \$90 million would finance about 27% of KDFC's estimated foreign currency commitments over the two-year period 1981-82. In the past, KDFC's financing accounted for an average of 35% of the cost of the projects it assisted;^{/1} on that basis, the proposed loan would support projects having an aggregate investment cost of about \$260 million. The subprojects financed by KDFC in the past have been heavily export-oriented ^{/2} and have yielded substantial economic benefits; financial rates of return for a representative sample of KDFC-financed subprojects ranged from 16% to 37.7% and ERR from 11% to 65.4%. The subprojects to be financed by KLTCB under the proposed Bank loan are expected to yield similar economic benefits. Based on the average cost per job of the projects recently financed by KDFC, the proposed loan would help create approximately 5,000 jobs.

Main Features of the Loan

4.07 Purpose. As with previous Bank loans to KDFC, the proposed loan would be used to finance: (a) 100% of the foreign exchange cost of directly imported goods and services and (b) 60% of the cost in domestic currency (representing the estimated foreign exchange component) of locally manufactured or procured machinery and equipment. The procurement procedures of KDFC have been designed to ensure a satisfactory degree of competition and reasonable costs. Procurement procedures remained unchanged following the conversion into an LTCB. While the Bank is satisfied with the performance of KDFC in dealing with procurement matters under previous Bank loans, KLTCB has agreed to modify its Policy Statement by including a statement that it is KLTCB's intention to apply International Competitive Bidding procedures whenever the size and nature of procurement justify them.

^{/1} KLTCB's ability to satisfy the domestic currency needs of its sub-borrowers should result in a higher ratio in the future.

^{/2} About 33% of KDFC's cumulative loan approvals over 1975-79 were for projects exporting more than 50% of their output.

4.08 Amortization Schedule. As is usual with Bank loans to DFCs, the proposed loan would have an adjustable composite amortization schedule reflecting the aggregate amortization schedules of the subloans made by KLTCB. The proposed loan is expected to be fully repaid within 15 years including a grace period of three years. The individual subloans would have a maximum maturity of 13 years including a normal grace period of three years. To encourage the use of Bank funds as a catalyst for increased mobilization of medium-term foreign commercial borrowings by KLTCB, the Bank would extend to 5 years the grace period of subloans funded with a mix of commercial and Bank funds (para. 4.10). A disbursement schedule for the proposed loan is provided in Annex B, Table 35.

4.09 In the past, KDFC has attempted to harmonize the lending terms and conditions of its foreign currency financing by providing some individual borrowers with both commercial and official resources for a given subproject. In practice, the subborrower was receiving two subloans, one funded with commercial and the other with official resources. This mixing of floating rate funds (from commercial sources) with fixed rate funds (from official sources) was used by KDFC primarily to reduce the magnitude to fluctuations in interest costs to the subborrowers. No attempt had been made by KDFC to blend both types of resources to cover the shorter maturities of a specific subloan with foreign commercial resources and the later maturities with official resources because the grace period allowed on official borrowings was too short. The advantage of blending resources is that foreign official borrowings which carry a maturity of up to 13 years can be spread over a larger number of projects. The advantage to KDFC is that it could mobilize and make use of foreign commercial resources having a relatively short maturity (4 to 5 years) instead of following the current practice of matching the maturity of borrowings with the maturity of the subloan./1

4.10 Under the proposed loan, the Bank would agree to fit the amortization of its funds around shorter-term commercial borrowings for subprojects co-funded with commercial and Bank resources. This feature would allow the use of shorter-term (4-5 years) commercial resources in the financing of long-term loans thereby increasing the availability of long-term resources the economy. The increase in the flow of commercial funds would help reduce the share of official resources in KLTCB's total foreign borrowings.

4.11 KDFC has been authorized by the Government to charge an interest spread of 1.25% over the cost of its foreign commercial borrowings compared to a 2% spread authorized on official borrowings. Apart from being barely sufficient to cover handling costs, the lower spread effectively discriminates against the mobilization of commercial resources. This matter was discussed with government representatives at negotiations and it was agreed that the Government would take all necessary action to allow KLTCB to charge an interest spread of up to 2% over the cost of its foreign commercial borrowings.

/1 KDFC's subloans had an average maturity of 9.5 years in 1979.

4.12 Free Limit. Under the previous Bank loan to KDFC the free limit for subloans was set at \$4.0 million. The standards of KDFC's operations would justify a complete waiver of the free limit. Both KLTCB and the Bank, however, believe in the desirability of the Bank continuing to review for prior approval a limited number of subprojects so as to maintain a dialogue on subproject appraisal. It is therefore recommended that the free limit be increased to \$5 million. It is expected that this would result in the Bank reviewing subprojects representing approximately 30% of the total loan amount.

4.13 Subloan Ceiling. No subloan ceiling had been set by the Bank under the previous loan to KDFC. The limitation to 25% of its equity incorporated in KDFC's Policy Statement was adequate to ensure that the proceeds of the loan were spread over a relatively large number of projects. Following the conversion of KDFC into KLTCB and the five-fold increase in the paid in capital, total equity is expected to reach about \$107 million by end-1980. A subloan ceiling of over \$25 million would be excessive. It is therefore recommended that a ceiling of \$10 million be imposed on individual subloans.

4.14 Debt/Equity Limit. Under previous loan agreements, the limit on KDFC's long-term debt was set at 10 times its equity. This limit is considered adequate and no change is therefore proposed.

4.15 Relending Rate. As indicated in para. 2.34, the current practice of imposing a uniform spread of 2% on the cost of foreign official borrowings results in arbitrary discrepancies in KLTCB's final lending rates. As agreed upon during negotiations, the relending rate under the proposed loan would be based on the weighted average cost of the foreign currency resources available to KLTCB for future lending. A 2% interest spread would be added to the average cost for determining the final lending rate to subborrowers. This is likely to result in a nominal relending rate of 11% p.a. with the foreign exchange risk passed on to subborrowers. Under previous Bank loans to KDFC, the Bank's practice of disbursing a mix of US dollars and other currencies brought up the effective cost of Bank funds for the subborrowers reached 17.4-26.5% p.a. in Won terms compared to nominal lending rates of 9.25% and 10.50%,^{/1} (para. 2.33). Assuming that past trends in foreign exchange fluctuations remain unchanged, the effective lending rate in Won terms of the proposed loan would be about 23% p.a. The effective cost of Bank funds would be in line with that of foreign commercial resources and with KLTCB's domestic currency lending rate. The effective lending rate would be positive in real terms; the proposed relending rate formula therefore appears satisfactory.

^{/1} The average difference between the nominal and effective lending rate was 11.8% p.a. This interest rate differential could be broken down into 6.5% p.a. representing the average annual depreciation of the Won vis a vis the US dollar and 5.3% p.a. representing the average annual appreciation (vis-a-vis the dollar) of the non US dollar currencies disbursed by the Bank.

Agreements and Understandings Reached at Negotiations

4.16 During loan negotiations, the Bank and the Government reached the following agreements:

- (a) the Government would formulate a "Statement of Korea's Financial Sector Policy Improvements". The statement would express the broad objectives of the financial sector reform and specify a number of policy measures to be implemented over time (para. 2.43); these policy measures are presented in a Supplemental Letter which will be attached to the Guarantee Agreement;
- (b) a specific time frame discussed and agreed upon for completion of the financial policy measures and studies listed in the "Statement of Korea's Financial Sector Policy Improvements";
- (c) the package of policy measures linked to the proposed loan comprises (i) a reduction in the scope of priority activities qualifying for financing under NIF; (ii) a restriction in the administrative scope of NIF lending to the specialized banks and KDB; (iii) harmonization of lending rates for foreign currency funds raised from official resources (4.15); (iv) a higher interest spread of up to 2% for onlending foreign commercial borrowings (4.11); and
- (d) a detailed study of the NIF program would be undertaken by the Government and completed by December 31, 1981.

4.17 In addition, the following agreements and/or understandings were reached with KLTCB:

- (a) the final onlending rate for the proceeds of the proposed loan will be based on the formula agreed upon with the Government (para. 4.15);
- (b) Bank funds would be allocated to enterprises which are committed to improving their financial structure and qualify under a specific debt/equity ratio (para. 4.04);
- (c) the amortization schedule of subloans co-funded with foreign commercial borrowings would be adjusted (para. 4.10);
- (d) the free limit on subloans will be raised to \$5 million (para. 4.12);
- (e) a ceiling of \$10 million will be applied to individual subloans (para. 4.13); and
- (f) a long-term debt/equity limit of 10:1 will be observed by KLTCB (para. 4.14).

4.18 Recommendation. A Bank loan of \$90 million is recommended which is expected to finance 27% of KLTCB's estimated foreign currency commitments over the two-year period 1981-82.

KOREA

THE KOREA DEVELOPMENT FINANCE CORPORATION

ANNEX A: THE KOREAN FINANCIAL SECTOR

KOREA

ANNEX A: THE FINANCIAL SECTOR

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TOTAL INCREASE IN LOANS OUTSTANDING AVAILABLE TO THE
MANUFACTURING SECTOR BY MATURITY
(W million)

	1974		1975		1976		1977		1978		1979	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
<u>Short-term Loans</u>												
Commercial banks	443,676	82.9	237,506	74.0	236,422	78.9	553,586	82.7	1,091,410	85.2	879,794	70.2
Savings institutions /a	-	-	-	-	-	-	-	-	-	-	-	-
KDB	13,741	2.6	5,631	1.8	12,780	4.3	28,315	4.2	2,778	0.2	115,957	9.3
KDFC /b	-	-	-	-	-	-	-	-	-	-	-	-
SMIB	24,978	4.7	18,192	5.6	29,231	9.8	44,891	6.7	64,907	5.1	133,362	10.6
CNB	10,434	1.9	7,786	2.4	9,365	3.1	8,748	1.3	3,827	0.3	30,911	2.4
KEB	42,248	7.9	51,943	16.2	7,670	2.6	22,086	3.3	112,288	8.8	88,480	7.1
Eximbank /b,/c	-	-	-	-	4,014	1.3	12,307	1.8	5,281	0.4	4,672	0.4
Life insurance companies	-	-	-	-	-	-	-	-	-	-	n.a.	-
General insurance companies	-	-	-	-	-	-	-	-	-	-	n.a.	-
Subtotal	535,077	100.0	321,058	100.0	299,482	100.0	669,933	100.0	1,280,491	100.0	1,253,176	100.0
<u>Long-term Loans</u>												
Commercial banks	32,918	29.1	49,832	31.4	164,319	55.1	18,005	6.4	124,011	21.0	388,247	36.4
Savings institutions /a	n.a.	-	n.a.	-	40	-	66	-	24	-	-	-
KDB	25,521	22.6	46,432	29.3	77,798	26.1	119,901	42.8	195,569	33.1	297,834	27.9
KDFC /b	16,333	14.5	8,964	5.7	26,766	9.0	23,738	8.5	45,736	7.7	43,681	4.1
SMIB	14,285	12.6	10,513	6.4	14,894	5.0	21,880	7.8	61,657	10.4	69,283	6.5
CNB	662	0.6	-275	-0.2	-707	-0.2	8,783	3.1	2,042	0.3	957	0.1
KEB	20,402	18.1	33,070	20.9	-3,079	-1.0	20,848	7.5	73,037	12.4	209,617	19.6
Eximbank /b,/c	-	-	-	-	-	-	27,280	9.7	70,618	12.0	57,157	5.4
Life insurance companies	2,099	1.9	6,502	4.1	9,739	3.2	36,079	12.9	18,110	3.1	n.a.	-
General insurance companies	674	0.6	3,813	2.4	8,310	2.8	3,744	1.3	-95	-	n.a.	-
Subtotal	112,894	100.0	158,491	100.0	298,080	100.0	289,324	100.0	590,709	100.0	1,066,776	100.0
Total	647,971	100.0	479,549	100.0	597,562	100.0	950,257	100.0	1,871,200	100.0	2,319,952	100.0
of which short-term loans	535,077	82.6	321,058	66.9	299,482	50.1	669,933	70.5	1,280,491	68.4	1,253,176	54.0
long-term loans	112,894	17.4	158,491	33.1	298,080	49.9	289,324	29.5	590,709	31.6	1,066,776	46.0

/a Only the trust account of the Bank of Seoul and Trust Co.

/b On disbursement basis.

/c The Eximbank was established in 1976.

Source: Bank of Korea, KDFC, Eximbank and Korea Insurance Corporation:
Insurance Statistics Yearbook, 1973-78.

AEP Projects Department
July 1, 1980

TOTAL INCREASE IN LOANS OUTSTANDING AVAILABLE TO THE
MANUFACTURING SECTOR BY INSTITUTIONS
(W million)

	1974		1975		1976		1977		1978		1979	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Commercial banks	476,594	73.4	287,338	59.9	400,741	67.1	571,591	60.2	1,215,421	65.0	1,268,041	54.7
Savings institutions /a	n.a.	-	n.a.	-	40	-	66	-	24	-	55	-
KDB	39,262	6.1	52,063	10.9	90,578	15.1	148,216	15.6	198,347	10.6	413,791	17.8
KDFC	16,333	2.5	8,964	1.9	26,766	4.5	23,738	2.5	45,736	2.4	43,681	1.9
SMIB	39,263	6.1	28,345	5.9	44,125	7.4	66,771	7.0	126,564	6.8	202,645	8.7
CNB	11,096	1.7	7,511	1.6	8,658	1.4	17,531	1.8	5,869	0.3	31,868	1.4
KEB	62,650	9.7	85,013	17.7	4,591	0.8	42,934	4.5	185,325	9.9	298,097	12.8
Eximbank /b,/c	-	-	-	-	4,014	0.7	39,587	4.2	75,899	4.0	61,829	2.7
Life insurance companies	2,099	0.3	6,502	1.3	9,739	1.6	36,079	3.8	18,110	1.0	n.a.	-
General insurance companies	674	0.1	3,813	0.8	8,310	1.4	3,744	0.4	-95	-	n.a.	-
Total (US\$ million equivalent)	647,971 1,336	100.0	479,549 989	100.0	507,562 1,232	100.0	950,257 1,959	100.0	1,871,200 3,858	100.0	2,320,007 4,784	100.0

/a Only the trust account of the Bank of Seoul and Trust Co.

/b On disbursement basis.

/c The Eximbank was established in 1976.

Source: Bank of Korea, KDFC, Eximbank and Korea Insurance Corporation: Insurance Statistics Yearbook, 1973-78.

AEP Projects Department
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Annex A
Table 3

STRUCTURE OF FINANCIAL SYSTEM
(in billion won)

	1975		1979		Average annual rate of growth 1975-79 (% p.a. in constant 1975 prices)/b
	Total assets	/a %	Total assets	/a %	
A. Monetary System	10,793.9	76.8	34,539.7	73.8	12.6
1. The Bank of Korea	2,173.7	15.5	5,778.3	12.4	7.5
2. Commercial Banking System	8,620.2	61.3	28,761.4	61.5	13.8
a. Commercial Banks	5,302.3	37.7	18,172.1	38.8	14.7
(i) 5 nationwide commercial banks	4,381.5	31.1	14,722.6	31.5	14.1
(ii) 10 local banks	661.0	4.7	1,917.4	4.1	9.9
(iii) Branches of foreign banks	259.8	1.8	1,532.1	3.3	31.2
b. Specialized Banks	3,317.6	23.6	10,589.3	22.6	12.6
(i) Korea Exchange Bank	1,927.3	13.7	5,557.0	11.9	9.7
(ii) Small-Medium Industry Bank	287.7	2.0	1,049.6	2.2	16.4
(iii) Citizens National Bank	265.7	1.9	1,181.6	2.5	18.7
(iv) Korea Housing Bank	167.7	1.2	838.7	1.8	25.9
(v) Credit sector of agricultural cooperatives	608.3	4.3	1,743.3	3.7	9.6
(vi) Credit sector of fisheries cooperatives	60.9	0.4	228.1	0.5	17.1
B. Nonbank Financial Institutions	3,264.6	23.2	12,239.3	26.2	17.2
1. Development Banks	2,381.5	16.9	7,160.3	15.3	10.9
a. Korea Development Bank	2,328.5	16.6	6,624.0	14.2	9.4
b. Korea Development Finance Corp.	53.0	0.4	212.0	0.5	-
c. Korea Export-Import Bank	-	-	324.3	6.9	-
d. Land Bank /c	-	-	-	-	-
2. Trust Accounts	244.4	1.7	1,229.7	2.6	26.1
3. Insurance Companies	206.7	1.5	1,128.8	2.4	28.7
a. Life insurance companies	105.4	0.7	688.2	1.5	34.4
b. Non-life insurance companies	101.3	0.7	440.6	0.9	21.6
4. Short-term Finance Companies	221.7	1.6	931.2	2.0	20.6
5. Mutual Savings and Finance Companies	63.7	0.3	360.5	0.8	29.9
6. Postal Savings Accounts	47.0	0.3	18.5	0.0	-35.5
7. Securities Firms	99.6	0.7	1,410.3	3.0	63.3
a. Korea Securities Finance Corp.	26.9	0.2	95.1	0.2	15.4
b. Securities dealers & brokers (net)	55.2	0.4	794.1	1.7	64.0
c. Investment trust companies (net)	17.5	0.1	521.1	1.1	96.7
Total	14,058.5	100.0	46,779.0	100.0	13.7

/a In current prices.

/b GNP deflator (1975 = 100) used to derive real values.

/c Korea Land Development Corporation.

Source: BOK and Financial Sector Report.

AEP Projects Department
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ASSETS AND LIABILITIES COMPOSITION OF COMMERCIAL BANKS
(In percentage)

	1970	1971	1972	1973	1974	1975	1976	1977	1978
<u>Assets</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Cash and other cash items	3.2	4.6	5.3	4.8	4.5	4.9	5.5	8.8	12.1
Due from BOK & other banks/a	19.4	9.1	20.5	22.4	16.4	19.8	18.3	15.5	11.7
Investments	3.7	4.0	5.0	5.4	4.0	3.9	5.0	6.1	4.7
Loans and discounts	60.6	62.5	52.7	52.0	56.4	48.7	49.8	46.8	46.2
Foreign currency loans	1.4	1.5	1.2	2.3	3.0	4.7	4.1	5.4	8.8
Foreign assets /b	3.7	6.6	5.8	4.4	9.0	12.4	11.1	11.8	11.0
Other assets /c	8.0	11.7	9.5	8.7	6.7	5.6	6.2	5.6	5.5
<u>Liabilities</u>									
Demand deposits /d	18.7	18.8	21.0	19.9	16.2	15.0	16.0	21.0	21.4
Time and savings deposits	52.4	51.3	43.8	43.4	36.2	35.3	36.1	33.8	32.9
Foreign currency deposits	1.1	1.4	0.8	0.9	1.3	7.5	7.6	8.2	5.9
Borrowings from BOK	10.8	9.9	10.5	11.4	17.8	12.6	10.7	8.5	10.7
Net guarantee liabilities /e	2.2	3.1	3.4	5.9	4.3	5.1	5.4	3.9	2.6
Other domestic liabilities /f	5.9	5.1	11.9	8.9	8.3	7.8	9.2	9.4	10.1
Other foreign liabilities /g	4.4	4.5	3.8	3.5	10.4	10.9	8.9	10.6	12.2
Capital reserves	4.5	5.9	4.8	6.1	5.5	5.8	6.1	4.6	4.2

/a Includes special debt of BOK from 1972 and due from NIF from 1975.

/b Includes due from banks in foreign currency.

/c Includes real estate and other assets.

/d Includes interbank deposits.

/e Acceptances and guarantees which appear on both sides of the balance sheet have been netted out.

/f Includes borrowings from trust accounts, treasury agencies, bills payable and special financial debentures issued by banks to BOK from 1972.

/g Includes borrowings in foreign currency by domestic banks and inter alia office borrowings by branches of foreign banks.

ANNEX A
Table 4

AEP Projects Department
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OTHER SOURCES OF FUNDS AVAILABLE TO THE MANUFACTURING SECTOR
(US\$ million)

	1974		1975		1976		1977		1978		1979	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
<u>Long-term Funds</u>												
<u>Domestic Currency</u>												
Stock	54.1	6.8	113.8	9.9	205.1	13.4	147.6	6.9	290.9	8.2	339.4	11.8
Corporate bonds	54.5	6.8	65.6	5.7	164.4	10.8	289.1	13.5	496.9	14.1	959.2	33.4
Subtotal (W million)/a	108.5	13.6	179.4 (87,014)	15.6	369.6 (179,271)	24.2	436.7 (211,784)	20.4	787.8 (382,073)	22.3	1,298.6 (629,859)	45.2
<u>Foreign Currency</u>												
Direct foreign investment	/b	-	/b	-	/b	-	36.4	1.7	76.7	2.2	124.3	4.3
Official loans	20.8	2.6	39.3	3.4	15.9	1.0	16.6	0.8	23.4	0.6	25.0	0.8
Commercial loans /c	415.6	52.2	537.9	46.7	631.0	41.3	892.5	41.6	1,307.3	37.0	440.0	15.3
Cash loans /d	100.6	12.7	109.7	9.5	124.5	8.2	416.9	19.4	858.8	24.3	465.0	16.2
Trade credit /d	150.3	18.9	284.8	24.8	385.6	25.3	344.9	16.1	480.1	13.6	522.4	18.2
Subtotal (W billion)/a	687.3	86.4	971.7 (470.3)	84.4	1,157.0 (560.0)	75.8	1,707.3 (826.3)	79.6	2,746.3 (1,329.2)	77.7	1,576.7 (764.7)	54.8
Total	795.8	100.0	1,115.1	100.0	1,526.6	100.0	2,144.0	100.0	3,534.1	100.0	2,875.3	100.0

/a Exchange rate used US\$1 = W 485 for 1975-79.

/b Direct investment to the manufacturing sector for the period 1972-76 amounted to US\$1.7 million.

/c By corporate borrowers; excludes loans channelled through financial intermediaries.

/d Long term portion.

Source: BOK and the Securities Supervisory Board of Korea.

AEP Projects Department
July 1, 1980

ANNEX A
Table 5

SUBSIDIZED CREDITS OUTSTANDING FROM DEPOSIT MONEY BANKS TO THE
MANUFACTURING SECTOR, 1975-79
(US\$ million)

	1975		1976		1977		1978		1979	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
<u>Loans with Banking Funds</u>										
Export loans	338.9	58.6	461.8	56.9	567.3	56.3	883.2	61.6	1,227.2	67.4
Machine industry promotion /a	23.1	4.0	31.5	3.9	28.2	2.8	26.1	1.8	15.1	0.8
Equipment for export industries	61.2	10.6	76.9	9.4	70.9	7.0	57.0	4.0	42.7	2.3
Special equipment	25.2	4.4	37.2	4.5	36.8	3.6	35.0	2.5	30.1	1.6
Industrial rationalization	14.9	2.6	10.6	1.3	7.1	0.7	7.8	0.5	7.5	0.4
Other /b	4.0	0.7	8.5	1.0	19.0	1.9	19.0	1.3	-	-
<u>Total</u>	<u>467.3</u>	<u>80.7</u>	<u>626.5</u>	<u>77.0</u>	<u>728.7</u>	<u>72.3</u>	<u>1,028.1</u>	<u>71.7</u>	<u>1,322.6</u>	<u>72.5</u>
<u>Loans with Government Funds</u>										
Medium industry	12.7	2.2	9.1	1.1	8.0	0.8	8.8	0.6	9.2	0.5
Foreign loan funds	45.1	7.8	57.0	7.0	75.0	7.4	108.9	7.6	130.2	7.1
<u>Total</u>	<u>57.8</u>	<u>10.0</u>	<u>66.1</u>	<u>8.1</u>	<u>83.0</u>	<u>8.2</u>	<u>117.7</u>	<u>8.2</u>	<u>139.4</u>	<u>7.6</u>
Loans with NIF Funds /c	53.4	9.2	121.0	14.9	196.7	19.5	287.7	20.1	362.7	19.9
<u>Total Subsidized Credits</u>	<u>578.5</u>	<u>100.0</u>	<u>813.6</u>	<u>100.0</u>	<u>1,008.4</u>	<u>100.0</u>	<u>1,433.5</u>	<u>100.0</u>	<u>1,824.7</u>	<u>100.0</u>
Total subsidized credits to manufacturing as a proportion (%) of total loans & discounts		19.9		21.8		21.4		21.0		

/a The Machine Industry Promotion Fund is being phased out and replaced by NIF.

/b Comprises the rural industry and defense industry promotion funds.

/c Loans with NIF are primarily directed to industry.

Source: BOK and the Securities Supervisory Board of Korea.

AEP Projects Department
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TOTAL INCREASE IN LOANS OUTSTANDING AVAILABLE TO THE
MANUFACTURING SECTOR BY DOMESTIC AND FOREIGN CURRENCY
(W million)

	1974		1975		1976		1977		1978		1979	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
In Domestic Currency												
Commercial banks	437,977	78.1	191,045	60.7	382,222	68.9	426,111	58.8	757,730	64.5	959,257	64.0
Savings institutions /a	-	-	-	-	40	-	66	-	24	-	55	-
KDB	32,980	5.9	43,733	13.9	76,086	13.7	124,501	17.2	166,611	14.2	172,435	11.5
KDFC /b	1,720	0.3	992	0.3	1,534	0.3	1,507	0.2	3,904	0.3	4,417	0.3
SMIB	39,263	7.0	26,939	8.6	43,935	7.9	63,717	8.8	115,478	9.8	192,442	12.9
CNB	11,096	2.0	7,511	2.4	8,658	1.6	17,531	2.4	5,869	0.5	31,868	2.1
KEB	34,590	6.2	33,893	10.8	20,779	3.7	30,338	4.2	64,086	5.5	98,886	6.6
Eximbank /b,/c	-	-	-	-	3,336	0.6	20,723	2.9	42,850	3.7	39,192	2.6
Life insurance companies	2,099	0.4	6,502	2.1	9,739	1.8	36,079	5.0	18,110	1.5	n.a.	-
General insurance companies	674	0.1	3,813	1.2	8,310	1.5	3,744	0.5	-95	-	n.a.	-
Subtotal	560,399	100.0	314,428	100.0	554,639	100.0	724,317	100.0	1,174,557	100.0	1,498,552	100.0
In Foreign Currency												
Commercial banks	38,617	44.1	96,293	58.3	18,519	43.1	145,480	64.4	457,701	65.7	308,784	37.6
Savings institutions /a	-	-	-	-	-	-	-	-	-	-	-	-
KDB	6,282	7.2	8,330	5.0	14,492	33.8	23,715	10.5	31,736	4.6	241,356	29.4
KDFC /b	14,613	16.7	7,972	4.8	25,232	58.8	22,231	9.8	41,832	6.0	39,264	4.8
SMIB	-	-	1,406	0.9	190	0.4	3,054	1.4	11,086	1.6	10,203	1.2
CNB	-	-	-	-	-	-	-	-	-	-	-	-
KEB	28,060	32.0	51,120	31.0	-16,188	-37.7	12,596	5.6	121,239	17.4	199,211	24.2
Eximbank /b,/c	-	-	-	-	678	1.6	18,864	8.3	33,049	4.7	22,637	2.8
Life insurance companies	-	-	-	-	-	-	-	-	-	-	n.a.	-
General insurance companies	-	-	-	-	-	-	-	-	-	-	n.a.	-
Subtotal	87,572	100.0	165,121	100.0	43,923	100.0	225,940	100.0	696,643	100.0	821,455	100.0
Total	647,971	100.0	479,549	100.0	597,562	100.0	950,257	100.0	1,871,200	100.0	2,320,007	100.0
of which domestic currency	560,399	86.5	314,428	65.6	554,639	92.8	724,317	76.2	1,174,557	62.8	1,498,552	64.6
foreign currency	87,572	13.5	165,121	34.4	42,923	7.2	225,940	23.8	696,643	37.2	821,455	35.4

/a Only the trust account of the Bank of Seoul and Trust Co.

/b On disbursement basis.

/c The Eximbank was established in 1976.

Source: Bank of Korea, KDFC, Eximbank and Korea Insurance Corporation:
Insurance Statistics Yearbook, 1973-78.

AEP Projects Department
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ANNEX A
Table 7

INTEREST RATE STRUCTURE
(In percent p.a.)

	Previous rate	January 12, 1980 rate
<u>A. Interest Rates on Deposits</u>		
1. <u>Time Deposits</u>		
Over 3 months	15.0	19.2
Over 6 months	17.1	21.3
Over 1 year	18.6	24.0
2. <u>Installment Savings</u>		
Over 1 year	16.2	20.6
Over 2 years	17.2	22.6
Over 3 years	18.2	25.0
3. <u>Wage Earners Savings Scheme /a</u>		
Over 2 years	25.7 (14.2)	28.4 (16.9)
Over 3 years	27.5 (15.2)	30.9 (18.6)
Over 5 years	30.2 (17.2)	33.6 (20.6)
<u>B. Lending Rates</u>		
<u>I. Commercial Banks</u>		
1. <u>Working Capital Loans</u>		
Prime borrower	18.5	24.5
Nonprime borrower	19.0	25.0
2. <u>Commercial Notes</u>		
Prime borrower	18.5	24.5
Nonprime borrower	19.0	25.0
3. <u>Overdraft</u>		
Prime borrower	20.5	26.5
Nonprime borrower	21.0	27.0
4. <u>Equipment Loans</u>		
Less than 3 years:		
Prime borrower	18.5	24.5
Nonprime borrower	19.0	25.0
3 to 8 years:		
Prime borrower	19.5	25.5
Nonprime borrower	20.0	26.0
Above 8 years:		
Prime borrower	20.5	26.5
Nonprime borrower	21.0	27.0

	\$	Previous rate	January 12, 1980 rate
5. <u>Export Financing</u>		9.0	12.0
6. <u>National Investment Fund</u>			
Less than 3 years		15.0	21.0
3 to 8 years		16.0	22.0
7. <u>Raw Material Imports for Export Industries</u>		15.0-16.0	21.0
II. <u>Korea Development Bank</u>			
1. <u>Working Capital Loans</u>			
Government resources		15.0	n.a.
Internal resources:			
Machine Industry Promotion		15.0	21.0
Special Equipment Funds		15.0	21.0
Prime borrowers (standard)		18.5	24.5
Nonprime borrowers (standard)		19.0	25.0
Foreign Commercial Funds /b		12.0-15.5	12.0-15.5/c
2. <u>National Investment Fund</u>			
Less than 3 years		15.0	21.0
3 to 8 years		16.0	22.0
3. <u>Tourism Development Fund</u>		9.0	n.a.
4. <u>Industrial Rationalization Fund</u>			
Direct lending: Less than 3 years		15.0	21.0
3 to 8 years		16.0	22.0
Through other banks: Less than 3 years		13.5	19.5
3 to 8 years		14.5	20.5
5. <u>Budgetary Resources</u>		7.5-13.5	n.a.
6. <u>Equipment Loans</u>			
Government resources		15.0	n.a.

	Previous rate	January 12, 1980 rate
6. <u>Equipment Loans (Cont.d)</u>		
Government Resources	15.0	n.a.
Internal resources:		
Machine industry promotion -		
Less than 3 years	15.0	21.0
3 to 8 years	16.0	22.0
Over 8 years	17.0	23.0
Special equipment -		
Less than 3 years	15.0	21.0
3 to 8 years	16.0	22.0
Priority industries -		
Less than 3 years	15.0	21.0
3 to 8 years	16.0	22.0
Over 8 years	17.0	23.0
Nonpriority - Less than 3 years	18.5	24.5
3 to 8 years	19.5	25.5
Over 8 years	20.5	26.5
Foreign Commercial Funds <u>/b</u>	12.0-15.5	12.0-15.5/ <u>c</u>
Foreign Currency Loans		
KfW (4th loan)	9.0	9.0
ADB (5th loan)	9.65	9.65
IBRD (2nd loan)	10.5	10.5
(3rd loan)	9.5	9.5
Foreign Commercial Funds <u>/d</u>		
Under 3 years		LIBOR + 1.0%
3 to 7 years		LIBOR + 1.125%
Over 7 years		LIBOR + 1.25%

	Previous rate	January 12, 1980 rate
III. <u>Korea Development Finance Corporation</u>		
1. <u>Domestic Currency Equipment Loans</u> /d		
Loans	20.5	26.0
Debenture subscription	23.0	28.0
Convertible debenture subscription	22.0	27.0
2. <u>Foreign Currency Loans</u>		
IBRD (7th loan)	9.35	9.35
ADB (3rd loan)	9.6	9.6
Commercial loan	Borrowing cost + 1.25%	Borrowing cost + 1.25%

/a Figures in parentheses show the basic interest rate payable by financial institutions; the remainder is subsidized by Government.

/b Converted into domestic currency.

/c Applicable rate determined monthly by KDB's International Department, subject to a ceiling of 21% for priority industries and 24.5% for non-priority.

/d No surcharge for loans extended with bank guarantee; add 0.5% surcharge for collateralized with mortgage.

AEP Projects Department
July 1, 1980

KOREA

THE KOREA DEVELOPMENT FINANCE CORPORATION

ANNEX B: REVIEW OF INSTITUTIONAL, OPERATIONAL AND
FINANCIAL ASPECTS

AEP Projects Department
September 1, 1980

KOREA

THE KOREA DEVELOPMENT FINANCE CORPORATION

ANNEX B: REVIEW OF INSTITUTIONAL, OPERATIONAL AND FINANCIAL ASPECTS

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KOREA

THE KOREA DEVELOPMENT FINANCE CORPORATION

1. INTRODUCTION

1.01 The Korea Development Finance Corporation (KDFC) was established in 1967 as a privately owned development finance company. KDFC was established with the active assistance of the World Bank Group which contributed to its capitalization through a first IBRD loan of US\$5 million and an equity investment by the International Finance Corporation (IFC) amounting to 14.3% of KDFC's initial share capital. Since 1967, KDFC has received a substantial proportion of its foreign exchange resources through seven IBRD loans totalling US\$320 million. In addition to participating in the initial share capital, IFC subscribed to three subsequent rights issues but later sold part of its shareholding. In May 1980, KDFC increased its share capital from W10 billion to W50 billion as a prerequisite for conversion into a Long-Term Credit Bank. As of June 2, 1980, IFC's holding amounted to 5% of the share capital of the Korea Long-Term Credit Bank (KLTCB).

KDFC's Role Within the Financial Sector

1.02 KDFC was established to provide medium and long-term financial assistance to the private sector. At present, KDFC is the only privately owned development finance company in Korea. While KDFC primarily provides financing for large private manufacturing enterprises, its clients are at the lower end of the large industry spectrum and tend to be firms which are not being actively backed by the Government. Consequently KDFC's role tends to be complementary to that of KDB. Over the period 1971-78 approximately 75% of KDFC's loans on a disbursement basis went to the manufacturing sector, financing 2.2% of gross domestic capital formation in this sector (Table 1) not being actively backed by the Government. Consequently KDFC's role tends to be complementary to that of KDB. Over the period 1971-78 approximately 75% of KDFC's loans on a disbursement basis went to the manufacturing sector, financing 2.2% of gross domestic capital formation in this sector (Table 1). Until now, KDFC has operated primarily as a lender of foreign exchange resources; as of December 31, 1979, 96.5% of KDFC's outstanding loan portfolio was in foreign exchange and the remaining 3.5% in domestic currency. KDFC has been unable to increase its domestic currency lending operations in the past since, by law, it was not permitted to accept deposits or issue debentures for onlending purposes.^{/1} In order to remove this constraint and expand the scope of its operations, KDFC has converted into a Long-Term Credit Bank (LTCB) on June 2, 1980.

^{/1} Unlike other financial institutions, KDFC was established under the Commercial Code, not the General Banking Act. Under the Commercial Code, a corporation may issue won debentures to the extent of the aggregate amount of its paid-in capital and reserves. However, the corporation is prohibited from onlending the proceeds of the debenture as such action contravenes the provisions of the General Banking Act.

2. CONVERSION TO A LONG-TERM CREDIT BANK

Justification for Long-Term Credit Banks

2.01 The Government-owned development finance companies have been able to mobilize a part of their domestic currency requirements, mainly short-term, through acceptance of deposits. However, sources of long-term finance have been practically limited to share capital and retained earnings as the Korean securities market was not particularly well developed. On the other hand, the demand for long-term resources has risen substantially owing to the increasing volume of investments in the heavy and chemical sectors which have longer gestation periods; investment in these sectors as a proportion of total manufacturing investment increased from 46.2% in 1973 to 56.2% in 1978. The demand for long-term funds is being met primarily by government-directed lending programs such as the National Investment Fund (NIF). A significant proportion of the demand is also financed through foreign currency resources. KDB estimates that in 1978, 47.2% of the equipment finance needs of the domestic private sector were financed through foreign loans.

2.02 In its Five-Year Economic Development Plan (1977-81), the Government has explicitly stated that it would increasingly aim at substituting foreign capital inflows with domestic savings for investment financing. To achieve this objective an increasing volume of long-term domestic savings needs to be mobilized. The corporate bond market, though thin and still relatively underdeveloped, has grown rapidly during the period 1975-78 and is deemed to have substantial potential for domestic resource mobilization. In 1979, approximately W 623 billion was raised through corporate bonds and in addition, government-owned/controlled institutions like KDB and Korea Exchange Bank (KEB) issued debentures to the tune of W 100 billion and W 30 billion, respectively. In order to further encourage domestic resource mobilization, the Government, in December 1979, passed legislation for the establishment of long-term credit banks (LTCB). The legislation defines a LTCB as an institution whose principal business is to lend equipment finance and long-term working capital funded through the issuance of long-term credit debentures instead of deposits.

The Korea Long-Term Credit Bank (KLTCB)

2.03 KDFC has been successful in raising foreign currency funds for onlending, but had not, so far, been legally permitted to mobilize domestic currency funds for onlending. In the past, KDFC did not find it a constraint to operate with a low volume of domestic currency resources as most of its clients principally wanted foreign exchange funds for importing equipment. However, as more capital goods were being produced domestically, an increasing proportion of its clients wanted a mix of domestic and foreign currency resources. To overcome this constraint and be able to expand the scope of its operations, KDFC decided to convert into a LTCB. The LTCB

legislation was approved by the National Assembly in December 1979 and KDFC became the first LTCB in Korea on June 2, 1980. Since its conversion, KDFC is known as the Korea Long-Term Credit Bank (KLTCB).^{/1}

2.04 The major changes occurring as a result of the conversion are as follows:

- (a) Financial Activities. The scope of KDFC's financial operations was significantly expanded.

	As traditional	
	DFC	As LTCB
(i) <u>Resource Mobilization</u>		
a. LTCB debenture issuance in Korea and abroad		x
b. Acceptance of deposits		x
c. Acceptance of installment savings		x
d. Borrowing from foreign sources	x	x
e. Discount of bills at Bank of Korea (BOK)		x
f. Temporary borrowings from BOK		x
(ii) <u>Financing</u>		
a. Long-term financing for equipment	x	x
b. Financing long-term working capital	x	x
c. Short-term financing:		x
i. short-term loans		
ii. discount of bills & notes		
(iii) <u>Service Activities</u>		
a. Securities business:		x
i. underwriting		
ii. selling		
iii. guaranteeing		
iv. investments		
b. Custody accounts		x
c. Trust business		x
d. Domestic & foreign exchange transaction		x
e. Technical & managerial consultant services	x	x

^{/1} In this report the institution has been referred to both as KDFC and KLTCB depending on the period of time being referred to.

- (b) Financial Base. By law, the minimum paid-in share capital of a LTCB has to be W 50 billion. As of December 31, 1979, KDFC had a paid-in share capital of W 10 billion. KDFC raised the additional W 40 billion in May 1980 through a 50% stock dividend (W 5 billion) and a W 35 billion additional share issue;
- (c) Board of Directors. The number of seats on the Board has been increased from 15 to 20;
- (d) Board/Management Responsibility. The Board retains responsibility for policy decisions including formulation of KLTCB's Statement of Investment and Operational Policies. However, all investment decisions are delegated to the Executive Directors Meeting;
- (e) LTCB Supervision. As an LTCB, the new institution will be supervised by the Ministry of Finance. The supervision/reporting requirements are similar to those of other Korean banks; and
- (f) Organization and Staffing. In order to manage the expanded volume of existing operations and the new types of financial operations to be undertaken, the professional staff has already been increased substantially.

Financial Activities

2.05 Resource Mobilization. The KLTCB will be permitted to raise domestic currency resources through acceptance of deposits and issuance of debentures.

- (a) Deposits and Installment Savings. KLTCB is allowed to accept deposits but only from local governments or business enterprises to which KLTCB has extended any form of financial assistance.
- (b) Debenture Issues. KLTCB proposes to issue debentures for a total of W 10 billion in 1980, W 30 billion in 1981 and W 50 billion in 1982.

The interest on the debentures issued by KLTCB, like those of KDB, will be tax exempt except for defense tax. KLTCB proposes to issue both discount and coupon debentures. The nominal discount rate on its one-, two- and three-year discount debentures would be 22.2%, 19.9%, and 17.9%, respectively. Effective yields on a compounded basis would be 28.5%, 28.9% and 29.3%, respectively. The comparable effective yield on KDB's discount debentures of the same maturity is currently 27.9%, 28.4% and 29.0%, respectively. The nominal interest rate on KLTCB's coupon debentures having a maturity of two-, three-, four or five years would be 26.5%, 26.9%, 27.4% and 28.0%, respectively. Owing to interest prepayment, the

effective yield would be 29.3%, 29.7%, 30.3% and 31.1%, respectively. In comparison, KDB issues a coupon debentures with a five-year maturity only, at a nominal interest rate of 24% and an effective yield of 29.1%. On both its discount and coupon debentures, KLTCB would offer a marginally higher yield than KDB because unlike KLTCB debentures, KDB bonds are government-guaranteed. Corporate debentures, on the other hand, tend to have a maturity of two years and an effective yield of 33.5% for (bank) guaranteed bonds and 36.5% for nonguaranteed bonds. Corporate debentures are not tax exempt. The tax on debenture income is 5% for individuals and 35% for corporations. The tax holiday on KLTCB debentures should make them particularly attractive to corporate buyers. The nominal and effective yield of various types of financial instruments is given in Table 2.

The average cost to KLTCB of its debenture issues would depend upon the mix of discount and coupon debentures and on the maturity mix. On current assumptions, the average funding cost is estimated at about 31.1% including an average issuing cost of 3%. As of March 1980, KDFC's nominal lending rates varied between 28% and 29% with an effective yield (through interest prepayment) of 33.7% and 35.1% respectively.^{/1} Even at these rates, KDFC finds that the demand for domestic currency resources far exceeds the supply. Consequently, the spread after issuing costs accruing to KLTCB on present assumptions would be between 2-3.5%.

2.06 New Operations. As a result of its increased volume of domestic currency resources, KLTCB expects to start lending short-term working capital for which the demand is considerable. At present, the organized financial sector is not able to satisfy this demand and a large number of even well established firms are being forced to turn to the Unorganized Money Market (UMM) for financing. KLTCB will also be permitted to undertake foreign exchange transactions such as opening letters of credit. In addition, KLTCB will be permitted to go into the securities business through underwriting, selling and guaranteeing investments.

Share Capital

2.07 As of December 31, 1979 the paid-in share capital of KLTCB amounted to W 10 billion. In order to convert into a LTCB, KDFC has had to increase its share capital. According to the LTCB law: "A long-term credit

^{/1} The effective rate on short-term loans from short-term financing companies and merchant banks is 35.6% and 34.8%, respectively. For term loans, the effective rate varies between 29.5% for a three-year commercial bank loan to 35.9% for a three-year merchant bank loan.

bank shall be a limited liability company with a paid-in capital of not less than W 50 billion." In order to raise its paid-in share capital from W 10 billion to W 50 billion, the shareholders' meeting of February 1980 agreed to a 50% stock dividend thereby increasing the total paid-in share capital to W 15 billion. The remaining W 35 billion was raised from existing and new shareholders. The new shares have been issued at par (W 1,000/share), although the market price of KDFC shares was lower (W 750-800/share) than par. Consequently, many of KDFC's previous shareholders decided to waive their rights. The previous shareholders subscribed to 13.4 million shares (W 13.4 billion). Hence, an additional W 21.6 billion had to be raised from new shareholders, primarily business/industrial groups in Korea. As of June 2, 1980, foreign shareholders accounted for 21.58% of KLTCB's share capital; IFC's holding was 5%. Domestic shareholders accounted for 77.42% of which industrial companies accounted for 43.7% and commercial banks for 21.6%. KLTCB's ownership is shown in Table 3.

Board of Directors

2.08 In February 1979, KDFC's Board of Directors was increased from 13 to 15. Following the conversion to a LTCB the number of directors was further increased from 15 to 20. Of these, 7 are from KLTCB, 9 represent domestic shareholders while the remaining 4 represent foreign shareholders; IFC continues to have a seat on the Board. A list of KLTCB's Board of Directors is given in Table 4.

Board/Management Responsibility

2.09 Prior to the KLTCB conversion, authority to conduct KDFC's operations and to approve loans and investments up to US\$5 million was delegated to an executive committee. The Executive Committee comprised four Board members including the KDFC Chairman and President, plus one representative each of the Korean and foreign shareholders. After the conversion, all investment decisions irrespective of size are made by the Executive Directors Meeting comprising the Chairman of the Board, the President, Deputy President and the Managing Directors. The Board, however, continues to play an important role in policy formulation.

Organization and Staffing

2.10 Tables 5 and 6 show the Organization Chart and Staff position of KDFC as of December 31, 1979. At that date, KDFC had a staff of 163, of whom 12 were executives and managers and 84 were professionals. The quality of KDFC's professional staff in terms of both academic and professional background remains excellent and is reflected in the performance of KDFC. As a result of the conversion, KDFC estimates that its staff in 1980 will increase to 245. Of these, 17 will be executives and managers and 130 will be professionals. KDFC does not anticipate any problems recruiting the additional staff. In preparation of the conversion, KDFC had started recruiting in early 1980 22 experienced professionals and 40 college graduates.

Project Appraisal and Supervision

2.11 Project Appraisal. KDFC's appraisal work continues to be of a high standard. The evaluation of a project's financial, marketing and technical aspects is thorough; in dealing with the technical aspects of projects, KDFC has been drawing heavily on the expertise of KIST. KDFC has recently expanded the coverage of its project appraisals by focusing on energy-related issues such as alternative sources of energy and energy saving techniques. In addition, the ecological implications of projects are also evaluated in accordance with the Pollution Prevention Act of 1971 and the Environmental Conservation Act of 1977. Since 1973, the ERR is routinely calculated for projects seeking foreign exchange financing in excess of US\$1 million, irrespective of the source of financing. Owing to the high quality of KDFC's appraisal reports they have often been used as training material by other Korean and some foreign financial institutions. Project appraisal reports are prepared by an appraisal team comprising a number of the senior management of the project departments, an engineer and another staff member. The average time for project processing varies between 5-7 weeks. The prudent selection of subprojects is reflected in the very high quality of KDFC's loan portfolio.

2.12 Project Supervision. KDFC has had independent appraisal and supervision units until 1978, since then appraisal and supervision is carried out by the same unit. KDFC currently has two appraisal-cum-supervision units specializing along industry lines. Previous IBRD appraisal reports had commented on the inaccurate and infrequent reporting by clients on the progress of projects making the timely detection of problem projects difficult. KDFC has successfully dealt with this problem by tightening up its client's reporting requirements and by devising a system for monitoring actual financial and economic benefits. Regular reports from clients now include progress reports at different stages of construction, and project completion reports; special reports are prepared for problem projects.

Procurement and Disbursement

2.13 KDFC's procurement and disbursement procedures are designed to ensure an efficient and appropriate use of funds. KDFC normally requires a reasonable degree of competition, involving a comparison of at least three quotations from potential suppliers. In 1979, the equipment requirements under 31 loans, involving about US\$64 million in KDFC financing, were procured in this manner. In qualifying cases, KDFC insists on international competitive bidding, and in 1979 one loan involving US\$0.8 million used this method of procurement. More frequently, and particularly for expansion projects, the specifications and technology of existing equipment effectively compels the procurement of new equipment from the same supplier. In 1979 such contractual procurement was made for 58 loans involving nearly

US\$55 million. In all cases of project procurement the merit of various alternative methods and offers are evaluated jointly by the subborrower and the project Department. The final procurement contract is subject to KDFC's approval and disbursements are subsequently authorized against submission of satisfactory documents and progress reports on project implementation. KDFC closely monitors the procurement process and also collects extensive data on the actual expenditure of its loans.

3. OPERATIONS

Overall Lending Operations

3.01 KDFC's financial assistance comprised: (i) term loans in foreign and domestic currency; (ii) convertible debentures and equity investments in domestic currency. Since 1979, KDFC has started operating a revolving fund to meet the short-term foreign exchange needs of its borrowers.^{/1} KDFC's guarantee operations are negligible. A summary of KDFC's operations through end 1979 is given in Table 7. As of December 31, 1979, KDFC's total outstanding loan portfolio amounted to W 184.5 billion of which 96.3% was in foreign currency and 3.7% in domestic currency.

Foreign Currency Lending Operations

3.02 Cumulative foreign currency loan approvals for the period 1968-79 amounted to W 242.1 billion for 461 loans. Considerable fluctuations have taken place in the year-to-year pattern of loan approvals, as a result of resource availability.

Domestic Currency Lending Operations

3.03 KDFC's domestic currency resources have been very limited and domestic currency financing has been viewed as an ancillary service provided to borrowers of foreign currency. The scarcity of domestic currency resources is reflected in the fact that over the period 1968-78, only 6.2% of KDFC's net loan approvals were in domestic currency.

Characteristics of KDFC's Lending Operations

3.04 Sectoral Distribution. Table 8 indicates the sectoral distribution of KDFC's loan approvals for the period 1968-79. Over the entire period manufacturing has accounted for between 60% and 80% of loan approvals. Among

^{/1} The revolving fund is funded from foreign exchange resources which are repaid to KDFC prior to the due date to KDFC's lenders. KDFC tries to match the maturity of the revolving fund loans with those of its own repayments.

nonmanufacturing activities, marine transportation has been consistently the most important, accounting for as much as 30.7% of loan approvals in 1976. The allocation of loans within the manufacturing sector has changed over time. Although KDFC, as a privately owned institution, does not operate any of the Government's directed lending programs, it has consistently attempted to allocate resources in line with government's priorities as indicated in the table below:

ALLOCATION OF MANUFACTURING LOANS
(%)

	1975	1976	1977	1978	1979
Manufacturing sector	100	100	100	100	100
Heavy and chemical sector	38.4	51.2	69.9	89.6	73.9

The growth of KDFC's lending in the heavy and chemical sector during the period 1975-78 and the subsequent decline in 1979 are in line with government priorities. Until 1978, the Government had urged increased investment in the heavy and chemical sector. However, in 1979 it was felt that some over investment had occurred in this sector and that more resources should be allocated to the production of consumer goods in order to help reduce inflation.

3.05 Size Distribution of Loans. Table 9 summarizes the geographic and size distribution of KDFC's loans over the period 1968-79. The size of loans made by KDFC has increased over time. During the period 1968-74, 41.8% of all loans made were under W 4 billion. The comparable figure for 1979 was 14.4%. The increased loan size has occurred both as a result of inflation and the increased lending by KDFC for heavy and chemical industries. Loan maturities have also changed quite significantly. During the period 1968-74, loans under five years, between five to nine years and over nine years accounted for 12.3%, 49.8% and 37.9% respectively of all loans. The comparable figures for 1978-9 were 6.4%, 13.8%, and 79.8%, respectively, showing that an increasing proportion of KDFC lending is long term.

3.06 Geographical Distribution. Over the period 1968-79, there has been a good dispersal of loans. Excluding the fishing and marine transportation industries, Seoul accounted for 30% of all loans in 1968-74 and 18.8% for the period 1975-79. On the other hand, the proportion of loans going to Kyung-Gi province, which surrounds Seoul, has remained almost the same: 31.3% for the period 1968-74 as against 30.4% for the period 1975-79. The volume of loans going to North Kyung-Sang Province, which is a major textile area, increased

sharply in 1978 and 1979 compared to the preceding period probably reflecting increased investment in the textile industry during this period as a result of the Government's decision to increase output for the domestic market. The proportion of loans to the South Kyung-Sang Province also rose sharply in 1979.

3.07 Financing of Small and Medium Enterprises. In line with government priorities, KDFC has actively tried to promote small and medium enterprises (SMEs).^{/1} This was achieved through direct KDFC loans to SMEs or indirectly through collaboration with Regional Commercial Banks (RCBs). The financial assistance provided by KDFC to SMEs comprises loans, debenture and equity investments (Table 10). Over the period 1975-79, loans approved by KDFC for SME amounted to W 3,917 billion, or 19.8% of KDFC's total approvals. By number, 164 loans were approved for SME out of total approvals of 398 or 41.2%. The value of loans to SMEs as a proportion of the loan portfolio has fluctuated between 28.7% and 16.7% over the period 1976-79. Over the same period, KDFC's debenture and equity investments in SMEs represented 25.5% and 17.2% of its debenture and equity portfolio respectively.

3.08 Investment Operations. A summary of KDFC's investment operations is presented in Table 11. Over the period 1968-79, equity participations and convertible debentures accounted for 28% and 13%, respectively of KDFC's domestic resource operations on an approval basis. As of end 1979, 54.6% of the equity participations was in listed companies and 45.4% in unlisted ones. In terms of sectoral distribution, 56.4% of its equity is in manufacturing companies, while banking and insurance accounts for a further 36.9%. Within the manufacturing sector, 90% of KDFC's equity investments are in the heavy and chemical sector.

3.09 Over the period 1968-79, KDFC, on an approval basis, invested W 3.3 billion in bonds and convertible debentures. Of these, 36.5% were in listed companies and the remaining 63.5% in unlisted companies. In terms of sectoral distribution, 83% were in manufacturing, 9.1% in construction and 7.9% in agriculture, forestry and fisheries. Within the manufacturing sector, over 80% of bonds and convertible debentures are in the heavy and chemical sector. Hence, through its loan, equity and debenture assistance KDFC has, in line with government priorities, tried to provide the heavy and chemical industries with the necessary mix of financial assistance.

^{/1} The official definition of SMEs are those enterprises with total assets not exceeding W 500 million (\$860,000) or employing less than 300 employees.

Characteristics of KDFC's Outstanding Investment Portfolio

3.10 The sectoral distribution of KDFC's outstanding investment portfolio /1 is given in Table 12. As of December 31, 1979, 67% of KDFC's portfolio was invested in manufacturing, 16.5% in transportation, 6.4% in agriculture, forestry and fisheries and 4.8% in banking and insurance. Within the manufacturing sector, light industries accounted for 26% of the portfolio; among light industries, textiles were by far the most important. The heavy and chemical sector accounted for the remaining 74% of KDFC's manufacturing portfolio. Within the heavy and chemical sector, chemicals, rubber and plastics were the most important followed by metal products and nonmetallic mineral products.

Utilization of Bank Loan No. 1635-KO

3.11 As of December 31, 1979, KDFC had approved and committed US\$92.9 million of the proceeds of the seventh Bank loan (US\$100 million) for 75 subprojects; the US\$10 million subloan to the Korea Development Leasing Corporation (KDLC) being considered as one subproject (Table 13). The total project cost of these subprojects was \$272.5 million with 55% in domestic currency and 45% in foreign exchange. KDFC's total financing amounted to \$125.7 million, of which IBRD resources accounted for 74% (\$93.5 million). In keeping with KDFC's overall portfolio, approximately 80% of the projects financed were for expansion. In terms of sectoral distribution, 28.5% of KDFC's financing went to metal industries, 8.2% to chemicals and 8.2% to nonmetallic products. The corresponding figures from the IBRD component were 17.2%, 9.9% and 9.7% respectively. Financial rates of return varied between 16.4% and 37.7% while economic rates of return ranged from 11% to 48.6%.

3.12 In order to support medium-sized labor-intensive projects, it was agreed that at least 20% of the seventh IBRD loan (US\$100 million) be utilized to finance projects with either total fixed assets of less than W 500 million or a fixed investment cost per job of less than \$12,500. As of December 31, 1979, total Bank funds of \$93.5 million had been utilized. Of which \$17.3 million, or 18.5%, went to projects which met the above criteria. These figures, however, underestimate the share of medium-sized labor-intensive projects since the \$10 million loan to KDLC was counted as one subproject and consequently did not meet the IBRD SME criteria. If KDLC subprojects meeting the IBRD eligibility criteria were also considered, the SME component of the seventh IBRD loan would exceed the 20% requirement.

3.13 In terms of employment creation, estimates made at the time of loan approval indicate that IBRD-financed subprojects will generate 5,965 jobs at a cost per job ranging between \$10,000 and \$540,000 with an overall average cost per job of \$45,812, in general, the projects with a high cost per job tend to be in the heavy and chemical sectors.

/1 Comprising loans, equity and debentures.

4. KDFC's ECONOMIC IMPACT

Economic Impact of KDFC's Lending

4.01 Table 14 summarizes the partial economic indicators of the 513 projects financed by KDFC since the start of its operations in 1968 to end 1979. The aggregate investment cost of these projects is estimated at W 682 billion of which KDFC financed W 247.7 billion or 36.3%./1

4.02 Scale of Output and Value Added of KDFC Project. The 513 projects financed by KDFC over the period 1968-79 are expected to generate incremental annual sales and value added of W 1,271 billion and W 450.6 billion respectively. Both the sales and value added per employee have risen steadily over the same period probably reflecting the increased volume of lending going to more capital intensive projects in the heavy and chemical sectors. Disaggregated data shows that the partial economic indicators varied significantly between KDFC projects proper, KDLC projects and RCB projects (Table 15). In 1978 KDFC financed 53 projects with a project cost of W 120 billion, KDLC financed 36 projects for W 13.4 billion and RCB financed 19 projects for W 5.4 billion. The sales per employee for KDFC projects were estimated at W 40.9 million while for KDLC and RCB projects it was approximately W 24.7 million. Similarly, the value-added per employee for KDFC was estimated at W 15.2 million while it was approximately half that for KDLC and RCB projects. In 1979, KDFC financed 89 projects with a project cost of W 181.6 billion while 7 RCB projects were financed for W 2.5 billion. No KDLC projects were financed in 1979 as the KDFC loan to KDLC for \$10 million had been fully committed by then. The additional sales per employee for KDFC loans in 1979 was W 49.7 million as against W 15.8 million for RCB loans. The comparable value added per employee figures were W 21.3 million and W 8.3 million respectively./2

4.03 Employment Creation. During the period 1968-79 it is estimated that KDFC-supported projects created about 44,581 jobs or about 1.5% of manufacturing employment. The fixed investment cost per job for all KDFC financed projects was W 11.4 million in 1975-76 but rose to W 17.6 million in 1978 and W 25.6 million in 1979. At a more disaggregate level, the fixed asset cost per job of KDFC projects proper in 1978 was W 20.1 million while for the KDFC/RCB-financed projects it was W 5.5 million./3 The comparable

/1 On an approval basis.

/2 This excludes an estimated 2,111 jobs created during 1976-78 by KDLC's leasing subprojects assisted by two KDFC loans of US\$5 million and US\$10 million respectively.

/2 The fixed asset cost per job of KDFC financed KDLC projects in 1978 was W 15.2 million.

figures for 1979 were W 26.3 million and W 9.6 million respectively. The sharp increase in the cost per job of KDFC projects probably results from both the increased volume of lending to more capital-intensive projects in the heavy and chemical sector and the general level of inflation.

4.04 Contribution to Exports. Over the period 1968-79 KDFC financed projects having incremental annual export sales of \$846.6 million which represented about 33% of annual incremental sales. The net foreign exchange earnings and savings for the same period is estimated at \$686.3 million. Approximately one-third of the projects approved by KDFC in the period 1975-79 exported more than half of their output (Table 16).

Resource Mobilization

4.05 The following table shows that KDFC's ability to lend is a function of its ability to mobilize sufficient borrowings (in W billion):

KDFC's OUTSTANDING LOAN PORTFOLIO AND BORROWINGS

<u>December 31,</u>	<u>1967</u>		<u>1977</u>		<u>1978</u>		<u>1979</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
<u>Outstanding Loan</u>								
<u>Portfolio</u>								
Domestic currency	3.1	4.2	2.6	2.7	4.8	3.4	6.8	3.7
Foreign currency	71.2	95.8	93.0	97.3	137.8	96.6	177.7	96.3
<u>Total</u>	<u>74.3</u>	<u>100.0</u>	<u>95.6</u>	<u>100.0</u>	<u>142.6</u>	<u>100.0</u>	<u>184.5</u>	<u>100.0</u>
<u>Outstanding</u>								
<u>Borrowings</u>								
Domestic currency	2.0	2.7	2.0	2.1	1.9	1.4	1.9	1.1
Foreign currency	71.2	97.3	92.8	97.9	137.6	98.6	177.8	98.9
<u>Total</u>	<u>73.2</u>	<u>100.0</u>	<u>94.8</u>	<u>100.0</u>	<u>139.5</u>	<u>100.0</u>	<u>179.7</u>	<u>100.0</u>

The higher volume of loans outstanding compared to borrowings shows that KDFC has been using part of its equity resources to finance its domestic currency lending. However, this can only be done to a limited extent as 40-45% of its equity resources have been utilized by KDFC to finance its investment portfolio.

4.06 Foreign Currency Resource Mobilization. Terms and Conditions of KDFC's long-term borrowings are given in Table 17. Since foreign currency lending accounts for 96-97% of KDFC's portfolio, mobilization of foreign

resources is critical. KDFC's performance has been quite satisfactory in this respect and foreign currency borrowings outstanding have grown at about 36% p.a. over the past three years. Until 1975, KDFC relied entirely on official sources of funds for its foreign borrowings. IFC was instrumental in introducing KDFC to foreign commercial lenders through a \$17.8 million loan syndicated in 1976. In the following years, KDFC raised on its own \$20 million from Citibank in 1977, \$30 million from Deutsche Bank in 1978 and \$50 million from Industrial Bank of Japan in 1979. Commercial borrowings of about \$100 million are expected in 1980. The following table summarizes KDFC's mobilization performance on a commitment basis over the period 1976-79 (in \$ million):

SOURCES OF FOREIGN CURRENCY RESOURCES

	<u>1976</u>		<u>1977</u>		<u>1978</u>		<u>1979</u>		<u>Total</u>	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Official sources	42.0	70.2	70	77.8	100	76.9	50	50.0	262.0	69.0
Commercial sources	17.8	29.8	20	22.2	30	23.1	50	50.0	117.8	31.0
<u>Total</u>	<u>59.8</u>	<u>100.0</u>	<u>90</u>	<u>100.0</u>	<u>130</u>	<u>100.0</u>	<u>100</u>	<u>100.0</u>	<u>379.8</u>	<u>100.0</u>

Over the four-year period under review, KDFC's aggregate reliance on official borrowings has declined to 69%. It took KDFC nine years before being able to mobilize its first foreign commercial borrowings. However, it is now in a position to increase the proportion of its foreign currency resources coming from commercial borrowings. Over the period 1980-82, KDFC expects to reduce further its reliance on official sources to about 50%.

4.07 Domestic Currency Resource Mobilization. KDFC has been much less successful in mobilizing domestic currency than foreign currency. Since its establishment in 1967 through end-1979, KDFC had mobilized aggregate domestic resources of W 23.4 billion; 42.6% originated from its share capital, 33.2% from reserves, 16.2% from noncash charges and 8% from a government subordinated loan obtained in 1967.

4.08 KDFC has not been able to mobilize adequate amounts of domestic currency resources because, by law, it was not permitted to accept deposits nor to issue debentures for on-lending purposes. To overcome this constraint, KDFC has converted into a Long-Term Credit Bank (LTCB). The May 1980 increase in KLTCB's share capital from W 10 billion to W 50 billion has provided W 35 billion in cash which should cover most of KLTCB's domestic currency requirements in 1980-81. However, KLTCB expects to issue domestic currency debentures in 1980 for W 10 billion. Issuances in 1980 and 1981

are projected to be W 30 billion and W 50 billion respectively. KLTCB expects that the availability of these domestic currency resources will allow its domestic currency lending to reach the equivalent of \$55 million and \$75 million on an approval basis in 1980 and 1981 respectively. By 1982, domestic currency lending is expected to account for 43% of its total lending operations compared to 5.4% in 1979.

Promotional Activities

4.09 Development Strategy Statements have been adopted by KDFC over the past few years which outline specific medium-term promotional objectives and the institutional mechanism through which they can be achieved. Major objectives are: development of the financial system; mobilization of foreign currency resources; development of industrial linkages and diversification of portfolio. The mechanisms used by KDFC to achieve these objectives are discussed below.

4.10 Korea Development Leasing Corporation (KDLC). Until 1972, there was no leasing company in Korea. The potential demand for leasing was, however, considerable since many enterprises, particularly small and medium, were unable to obtain medium- and long-term financing to purchase equipment owing to inadequate collateral. In such cases, leasing is an attractive alternative as the ownership of the equipment rests with the lessor. The first leasing company, a wholly owned subsidiary of KDB, was established in 1972 and contributed to the drafting of the Law on "Promotion of the Leasing Industry" which was enacted in 1973.

4.11 In response to the market demand for leasing, KDLC was established in 1975 by KDFC and the Orient Leasing Company (OLC) of Japan. KDLC has an authorized and fully paid-in share capital for W 3 billion. Domestic shareholders hold 51% of its shares, the remaining 49% being held by foreign shareholders. Its major shareholders are KDFC (30.8%), OLC (29%) and IFC (10%).

4.12 KDLC writes financial leases for industrial, agricultural, transport, construction and medical equipment. As of end 1979, KDLC had written 247 contracts for W 62 billion (US\$107 million). As mentioned above, through leasing, small and medium enterprises have been able to obtain what in effect is an unsecured loan. The major proportion of KDLC's business was with SMEs; in 1979, 72% of the number of leases and 63% by value went to SMEs. The rapid growth of leasing has also indirectly helped to develop the domestic capital goods industry as some of the leasing equipment is domestically produced; KDLC increased its domestically procured equipment from 12% of total purchased equipment in 1978 to 14% in 1979.

4.13 KDLC's growth has been more than satisfactory; its leasing market share was 40.3% in 1979. The major constraint faced by KDLC has been inadequate funds. For this reason a \$5 million subloan was made by KDFC to

KDLC from the proceeds of the sixth Bank loan (No. 1635-KO); a \$10 million subloan was also made from the seventh IBRD loan (1145-KO) to KDFC. During the period 1976-79, these two subloans have been allocated to 63 projects. The sectoral and geographic distribution is given in Table 18.

4.14 Korea Investment and Finance Corporation (KIFC). Prior to 1971, the short-term financial needs of less than prime borrowers were being met by the Unorganized Money Market at very high interest rates. A study of the financial sector undertaken at the time concluded that such funding needs should be met by institutions dealing in short-term credit instruments. It was against this background that KIFC was established in 1971 under the joint sponsorship of KDFC and IFC as a money market/investment banking financial intermediary. KIFC became the first institution to operate under the Short-Term Financing Business Law enacted in September 1972; subsequently, 15 other short-term financing companies were established.

4.15 KIFC's paid-in share capital was increased to W 6 million and W 10 million in 1978 and 1979, respectively; 67% of the current share capital is held by domestic shareholders (of which KDFC owns 24%) and 33% by foreign shareholders (of which IFC owns 17%). KIFC's operations have grown rapidly; its discounted notes outstanding amounted to W 79.4 billion in 1979, a 47% increase over end 1978. KIFC has helped develop the money market by issuing short-term paper; in 1979, KIFC paper outstanding amounted to W 63 billion equivalent to 59% of total short-term notes outstanding. KIFC has also contributed to the promotion of the capital market by managing the underwriting of share issues (W 1.4 billion in 1979) and bond issues (W 11.6 billion in 1979). KIFC also participated in the underwriting of one equity issue and 33 bond issues. Profitability in terms of net income after tax as a percentage of average equity was 63% in 1979 despite the recent increases in KIFC's share capital.

4.16 Korea Technology Advancement Corporation (K-TAC). Through its participation in K-TAC, KDFC has helped promote new technologies in Korea. K-TAC was incorporated in 1974 as a fully owned subsidiary of the Korea Institute of Science and Technology (KIST) with the objective of promoting the commercial exploitation of patents and technical processes developed by KIST. K-TAC has a paid-in share capital of W 683 million; KIST regulations have so far precluded KDFC from taking an equity participation in K-TAC. KDFC did, however, provide financial assistance to projects promoted by K-TAC.

4.17 Since its inception, K-TAC has promoted four projects: bronze powder; cordierite saggar; agro-chemicals and dument wire production. KDFC has provided these four projects with financial assistance in the form of both loans (W 150 million in local currency and US\$1.9 million in foreign currency) and equity (W 346 million). The progress on all four projects has been satisfactory. The bronze powder project has been operating and plans to double its production capacity in the face of rapidly increasing market demand. The cordierite saggar project has started exporting its output.

The agro-chemicals project started operating in mid-1979 while the dument wire project is still under construction. Most recently, KIST has developed a technique for abstracting the natural sweetness from Stevita. K-TAC intends to start this project at a cost of \$2.1 million; financing is currently being reviewed by KDFC.

4.18 KDFC-RCB Assistance to Small Industries. While KDFC's longer term objectives are to establish regional offices, KDFC felt it could have an immediate impact on improving the geographic and size distribution of its operations by establishing links with some Regional Commercial Banks (RCBs). KDFC also considered that such a scheme would facilitate lending to SSE in the more backward areas. Between August 1975 and December 1976, an association was developed with four of the ten RCBs. Under this collaboration, KDFC provides the foreign currency requirements of projects identified and appraised by the RCBs on the basis of guidelines issued by KDFC. The RCBs provide the domestic currency financing and are responsible for project supervision and follow up. To improve the appraisal standard of RCBs, KDFC has provided training to RCB staff. To finance its scheme with the RCBs, KDFC earmarked US\$5 million out of its fifth IBRD credit line and US\$ 7 million from the sixth IBRD loan.

4.19 As of December 1979, KDFC has financed 52 projects for \$14.4 million under its RCB scheme. The main characteristics of the projects are summarized in Tables 19 and 20. The average size of the loans made by KDFC under the RCB scheme (US\$277,000) is nearly 5 times smaller than the overall average (US\$1.3 million) for KDFC loans. The average investment cost per job created was US\$11,790 as against the overall average US\$31,544 indicating that RCB projects tend to be more labor-intensive than KDFC's usual operations. It is clear that through its association with the RCB's, KDFC has been successful in financing small enterprises and bringing about a greater regional dispersal of its loans.

5. FINANCIAL POSITION, PERFORMANCE AND RESOURCES

Financial Position

5.01 Assets. Audited balance sheets for the period 1975-79 are summarized in Table 21. As of December 31, 1979, KDFC's total assets amounted to W 209.2 billion (US\$431.3 million) having grown at approximately 40% p.a. over the period 1975-79. The sharp growth in assets was almost entirely due to the growth in the foreign currency loan portfolio which rose from W 42.6 billion (US\$87.8 million) in 1975 to W 177.7 billion (US\$366.4 million) in 1979 or an average annual growth of 42.9%.

5.02 Liabilities and Equity. As of December 31, 1979, 78% of KDFC's total assets were financed by long-term liabilities, 12.5% by current liabilities and 9.5% by equity. Foreign currency borrowings accounted for 98.9% of

long-term liabilities. KDFC's domestic currency borrowings comprise a government subordinated loan for W 2.025 billion which KDFC started repaying in 1977. KDFC's total net worth stood at W 19.8 billion at end-1979. The paid-in share capital was increased from W 5 billion to W 10 billion in 1978.

5.03 Liquidity and Debt-Equity Ratios. At end-1979, the long-term debt equity ratio of KDFC reached to 9.1:1 and was approaching KDFC's contractual limit of 10:1. The increase in the debt-equity ratio resulted from a sharp increase in KDFC's lending operations financed entirely by debt. An excellent collection ratio has enabled KDFC to service its debts punctually. Both debt service coverage and interest coverage ratios are satisfactory and so is KDFC's liquidity position (Table 24).

Financial Performance

5.04 Earnings. Income and cash flow statements are summarized in Tables 22 and 23; indicators of financial performance for the period 1975-79 are shown in Table 24. Despite a decline in KDFC's interest spread from 3.6% in 1975 to 2.5% in 1979 imposed by the government /1 KDFC's income before tax increased from W 1.5 billion in 1975 to W 5.2 billion in 1979 (annual average growth rate of 36.4%) through a rapid expansion of its loan portfolio. Simultaneously, KDFC has held its general and administrative expenses under tight control; the ratio of general and administrative expenses to average total assets declined from 1.3% in 1975 to 0.9% in 1979. However, declining spreads on foreign lending have caused a reduction of the return after tax on total assets from 2.3% in 1975 to 1.8% in 1979.

5.05 Share Prices and Dividends. Despite increases in share capital in 1976 and again in 1978, earnings per share have been maintained at 37.3% to 41.1% between 1975-79. This has enabled KDFC to pay cash dividends of 20% of par during 1976-78 at a payout ratio of approximately 50%; the comparable figures for 1979 were 23% and 61.7% respectively. The market value of KDFC shares, ranged between W 958 and W 1,270 in 1979 for a par value of W 1,000; KDFC shares have generally traded at a price earnings ratio of between 2.5 and 3.0. The book value/share rose from W 1,729 in 1978 to W 1,960 in 1979.

5.06 Quality of Portfolio. Tables 25 and 26 show the status of KDFC's loan portfolio as of December 31, 1979 and Table 27 reflects its collection performance over the period 1975-79. With only two loans in arrears at end 1979, the portfolio was in excellent condition. As of December 31, 1979 total arrears amounted to W 65 million of which W 42 million had been in arrears

/1 The interest spread on foreign currency loans declined from 3.0% to 2.1% over the period 1975-79.

for under three months and W 23 billion for 3-6 months; the portfolio affected by arrears amounted to only 0.04%. The collection ratio is also impressive with collections of principal and interest due in 1979 reaching 99.8%. In 1979, collections against arrears at the beginning of the year were 100% while collections against new dues amounted to 99.8%. Three loans with an outstanding balance of \$4.8 million were rescheduled for either six months or one year in 1978. Another three loans with an outstanding balance of \$3.2 million (0.8% of total portfolio) were rescheduled for 6-12 months in 1979. As of December 1979, KDFC's provisions for doubtful accounts amounted to 1.4% of its total loan and investment portfolio. Under present conditions this appears adequate.

Resources and Terms and Conditions of Lending

5.07 Resources. KDFC's resource position as of December 31, 1979, is given in Table 28. Over 85% of KDFC's resources have been denominated in foreign currency. To date, IBRD has made seven loans to KDFC totalling \$320 million. ADB has made three loans totalling \$120 million. DEG has made one loan for \$2 million. KDFC's first commercial borrowing was an IFC syndicated loan in 1976 for \$17.8 million. Subsequently, loans have been syndicated by APCO for \$20 million in 1977, Deutsche Bank for \$30 million in 1978 and Industrial Bank of Japan (IBJ)/Bank of Montreal (BOM) for \$50 million in 1979. Deutsche Bank, IBJ and BOM are all major shareholders of KDFC. As of December 31, 1979, KDFC had foreign currency resources available for commitment of \$81.5 million and \$63.6 million for approval.

5.08 By contrast, domestic currency resources were very thin, consisting of primarily (76%) of equity resources of W 17.9 billion as of December 31, 1979 and a subordinated government loan (16%). Domestic currency resources available for commitment and approval as of December 31, 1979, amounted to W 5.1 billion and W 4.9 billion respectively.

5.09 Conditions of Lending. KDFC's on-lending rates for the latest IBRD and ADB loans were fixed at 2% above borrowing cost, i.e. 9.35% and 9.6% respectively; commercial loans have been linked to LIBOR and on-lent at 1.25% above the cost of borrowing. In the case of all foreign exchange loans the exchange risk is passed on to the subborrowers. The cost of the exchange risk has been substantial as the won has been devalued regularly against the US dollar (from W 269/\$1 in 1967 to W 580/\$1 since January 1980).^{/1} Since the IBRD and ADB subloans have been partially disbursed in currencies which have appreciated against the dollar, the cost of the exchange risk has been substantially greater. KDFC has carried out a study of the average effective cost to its subborrowers of the third, fourth and fifth IBRD loans. Using a discounted cash flow technique, the effective borrowing cost of the three loans was computed at 18.45%, 17.36% and 26.45% respectively. For the sake of comparison, KDFC charges a nominal rate of 20.5% to 23% on its domestic currency loans.

^{/1} Representing an average devaluation of 6.1% p.a.

5.10 Audit. KDFC's accounts have been audited in keeping with international accounting standards by Samil Accounting Corporation, a member firm of the Coopers and Lybrand Group. The reports met with the Bank Group's requirements. The accounts have always been certified without qualification.

6. PROSPECTS AND RESOURCE REQUIREMENTS

Future Operations of KLTCB

6.01 Organizational and Development Strategy for 1980-81. KLTCB's organizational set up incorporates three new departments established in April 1980 to engage in (i) domestic and foreign exchange operations, (ii) underwriting and sale of securities, and (iii) acceptance of deposits from clients and short-term financing. Guidelines for the new activities are being prepared and recruitment and training of staff is taking place. KLTCB is also seeking to strengthen relationships with overseas financial institutions to build up the necessary correspondent and depository bank networks in order to carry out effectively its new foreign exchange operations.

6.02 KLTCB's development strategy for 1980-81 aims at identifying and developing projects that (i) expand employment opportunities, (ii) enhance production efficiency; and (iii) consume less energy. Continued support will be given to small- and medium-scale enterprises with about 20% of total lending directed to SMEs. KLTCB also intends to continue its policy of bringing about a greater geographical dispersal of investments.

6.03 As of December 31, 1979, 80.6% of KDFC's foreign exchange loans are secured by payment guarantee issued by other banking institutions. This situation resulted largely from the limited scope of financial services offered by KDFC and the need for its borrowers to seek additional financing from other banking sources. KDFC's conversion into an LTCB will expand the range of its operations and should permit increasing reliance on collateral rather than bank counter guarantees thus lessening the cost of funds to the borrowers. To compensate for the higher risk which would result, KLTCB expects to intensify its supervision activities.

6.04 Regarding resource mobilization, KLTCB proposes to reduce further its dependence on official sources of foreign funds. It also proposes to raise short- and medium-term domestic currency resources through debenture issues and by accepting deposits.

Projected Operations

6.05 KLTCB's operational program for the period 1980-84 is given in Table 29. Foreign currency loan approvals are projected to rise between 10-15% (on a dollar basis) indicating a growth in lending of 7-8% p.a. in

real terms. Domestic currency lending is forecast to increase dramatically from W 3.2 billion in 1979 to W 152 billion by 1984. Assuming inflation continues at 20% during the projected period, the growth in real terms would still be significant. By 1983, domestic currency lending is forecast to reach the same level as foreign currency lending, namely, US\$190 million p.a.

6.06 If KLTCB is able to mobilize domestic currency resources at the projected levels, the demand for the funds is likely to be forthcoming. During the period 1971-78, total disbursements by KDFC to the manufacturing sector accounted for less than 3% of fixed investment in that sector. It is also widely known that well-established firms have to turn to the Unorganized Money Market for their funds as the Organized Financial Sector is not able to satisfy their requirements. KDFC has already demonstrated its ability to evaluate projects so that the acquisition of new skills will be limited. KLTCB's ability to achieve the forecast lending volume will, therefore, primarily depend on its ability to raise the necessary resources./1

Resource Mobilization

6.07 The resources which KLTCB will need to mobilize to support its lending program are given in Table 30. With respect to KLTCB plans to reduce further its dependence on official sources for foreign currency resources, and increase the proportion of its commercial borrowings. The ratio of commercial to official borrowings in 1978-79 was 35:65; the projected ratio for 1980-82 is 48:52 and 66:34 in 1983-84. If Korea's credit standing in the international money markets remains unaffected by the recent political and economic changes in Korea, KLTCB should have no problems in raising the projected foreign commercial resources as it will be viewed as a prime borrower.

6.08 On current assumptions, KLTCB should be able to raise the projected won resources and to onlend the funds with a positive spread. The effective yield of KLTCB debentures will be very attractive at 28.5%, 28.9% and 29.3% for one, two, and three-year coupon debentures. Owing to the projected maturity structure of the won resources mobilized, KLTCB will onlend part of the resources for working capital purposes. KLTCB also expects to onlend the proceeds on a medium-term basis through purchase of corporate debentures issued by its borrowers. KLTCB expects an effective yield of between 33.7% and 35.1% on such operations. These rates are in line with those charged by other institutions in the organized financial sector and at these rates demand far exceeds supply.

/1 The foreign exchange, securities and deposit operations are not analyzed here in any detail as they would not have a material impact on KLTCB's financial performance until the end of the projection period.

Forecast Financial Performance and Condition

6.09 The financial statements of KLTCB for the projected period 1980-84 are given in Tables 31, 32 and 33. The recent devaluation should improve the profitability of KLTCB in 1980 as about 90% of the portfolio is denominated in foreign currency and interest earnings will increase by about 20% in won terms. The January 1980 increase in interest rates will enable KLTCB to increase the return on its local currency loans. In 1980, KLTCB's total gross income is expected to double. KLTCB is expected to show a strong financial performance throughout the projection period. General and administrative expenses are projected to be contained at 1% of average total assets. As a consequence of the increase in share capital, earnings per share as a percentage of par are forecast to fall from 37.3% in 1979 to 25% in 1980 but would rise to 32.0% by 1983. Cash dividends of 20% of par were paid out by KDFC during the period 1976-1978 with a payout ratio of about 50%. In 1979, a higher cash dividend ratio of 23%/1 brought the payout ratio to 62%. In order to maintain the cash dividend ratio at 22% in 1981, and 24% in 1981 the payout ratio is projected to be around 80% which is the maximum permissible rate. The debt-service coverage is projected to vary between 1.55 and 1.64 during the projected period while the minimum interest coverage ratio is projected to be 1.28 in 1984. Both these ratios appear to be satisfactory (Table 34).

Resource Position and Requirements

6.10 Domestic currency commitments are projected to increase from W 5.5 billion in 1979 to W 35.2 billion in 1980 and W 55.1 billion in 1981 (a ten-fold increase over 1979). Cumulative domestic currency commitments for the period 1980-84 are expected to be W 489 billion or 49.6% of KLTCB's total commitments for the period. These commitments will be financed through KDFC's share capital increase (W 35 billion in 1980) and debenture issues. Debenture issues of W 220 billion are projected over 1980-84. Cash generated from operations and disposal of equity investments will provide additional won resources.

6.11 Foreign currency commitments are projected to increase less rapidly than domestic currency commitments. Foreign currency commitments would increase from \$125.3 million in 1979 to \$135.9 million in 1980 and \$158.0 million in 1981 or a growth of 12.3% p.a. over the period 1979-81. Cumulative foreign currency commitments for the period 1980-84 are projected to be \$851.8 million or 50.4% of KLTCB's total commitments for the period. As of end-1979 KLTCB's uncommitted foreign currency resources stood at US\$81.5 million (comprising \$50 million from ADB, \$23.7 million from IBJ, \$7.2 million from IBRD, and \$0.6 million from other sources). These resources were insufficient to meet the 1980 commitments projected at \$136 million. Over the period 1980-84, KLTCB expects to mobilize \$840 million of which \$470 million (56%) are projected to come from commercial sources and \$370 million (44%) from official sources (including the proposed loan).

/1 To keep with the increased level of interest rates.

KOREA

KOREA DEVELOPMENT FINANCE CORPORATION

KDFC's Loan Contribution to Fixed Investment
in the Manufacturing Sector, 1971-78

Industry branch /a	Gross fixed capital for- mation (W bln: current prices) 1971-78	KDFC loan dis- bursements /b (W bln: cur- rent prices 1971-78	Share of KDFC disburse- ments (%)
<u>Manufacturing</u>			
<u>Food, Beverages & Tobacco</u>	624.7	7.5	1.20
Food	323.2	2.3	0.71
Beverages & tobacco	301.5	5.2	1.72
<u>Textiles, Apparel & Leather</u>	881.8	27.0	3.06
<u>Wood & Wood Products</u>	81.5	0.8	0.98
<u>Paper & Printing</u>	153.8	3.1	2.02
<u>Chemicals, Petroleum, Coal & Rubber</u>	944.6	13.9	1.47
Chemicals	525.6	6.7	1.27
Petroleum & coal	313.5	4.7	1.50
Rubber	105.5	2.5	2.37
<u>Nonmetallic Minerals</u>	238.4	11.7	4.91
<u>Basic Metals</u>	675.8	5.6	0.83
<u>Metal Products, Machinery & Equipments</u>	993.3	30.8	3.10
Metal products	87.4	12.1	13.84
Machinery & equipment	157.7	9.6	6.09
Electrical & electronic machinery & equipment	322.7	4.8	1.49
Transport equipment	425.5	4.3	1.01
<u>Other Manufacturing</u>	101.3	0.1	0.10
<u>Total Manufacturing</u>	4,695.2	100.5	2.14
<u>Nonmanufacturing</u>			
Fisheries	181.4	4.4	2.42
Transportation services	n.a.	21.4	n.a.

KOREA

KOREA DEVELOPMENT FINANCE CORPORATION

Yield on Various Financial Instruments
As of Feb. 21, 1980

Classification	Maturity	Interest payment	Annual nominal interest rate (%)	Annual effective rate before tax (%)	Effective rate after tax %			Issuer
					Individual	Public Corp.	Non-public Corp.	
1. <u>Grain Bond</u>	1 year	1 yr, payment on due date	26.0	26.000	25.805	23.660	22.880	Government
2. <u>Industrial Finance Debenture</u>	1 year	1 yr prepaid (discount rate)	21.8	27.877	27.668	25.368	24.532	Korea Development Bank
	2 years	2 yr prepaid (discount rate)	19.7	28.459	28.246	25.898	25.044	
	3 years	3 yr prepaid (discount rate)	17.8	28.984	28.767	26.375	25.506	
	5 years	6 months, prepaid	24.0	28.914	28.914	26.510	25.636	
3. <u>Corporate Bond</u> (Guaranteed)	2 years	3 months, payment on due date	30.0	33.547	31.576	20.715	16.438	Corporations
	2 years	3 months, payment on due date	30.0	36.594	34.444	22.597	17.931	
4. <u>Municipal Sub-way Bond</u>	10 years		6.0	6.000	5.955	5.460	5.280	City of Seour
5. <u>Development Trust Beneficiary Certificate</u>	2 years	3 months, payment on due date	26.7	29.494	29.278	26.840	25.955	Seoul Trust Bank
		(discount rate)						
		2 yrs prepaid	19.7	28.376	28.163	25.822	24.971	
	3 years	3 months, on due date	27.1	29.981	29.756	27.283	26.383	
		(discount rate)						
	3 years	3 yrs prepaid	17.9	28.936	28.719	26.322	25.273	
6. <u>Time Deposits</u>	1 year	1 month, payment on due date	24.0	26.824	26.623	16.564	13.144	Commercial Banks
7. <u>Short-term Note</u> (Guaranteed)	90 days	90 days, payment on due date	26.0	28.519	25.168	17.610	13.974	Short-term Finance Companies & Merchant Banking Corporations
	90 days	90 days, payment on due date	29.2	32.448	28.635	20.037	15.900	

KOREA

KOREA DEVELOPMENT FINANCE CORPORATION

Shareholding of KLTCB

Shareholding Group	<u>Present (cap. W 15 bil)</u>		<u>After Increase</u>	
	<u>Shares</u>	<u>%</u>	<u>Shares</u>	<u>%</u>
Foreign shareholders	5,001,274	33.34	10,791,271	21.58
Domestic shareholders				
Private enterprise	2,760,490	18.40	21,822,161/ <u>a</u>	43.65
Banks	2,195,259	14.63	10,800,000	21.60
Insurance Co & Securities	2,599,199	17.32	3,525,842	7.05
Individual	2,443,778	16.31	3,060,726/ <u>b</u>	6.12
Subtotal	<u>9,998,726</u>	<u>66.66</u>	<u>39,208,729</u>	<u>78.42</u>
<u>Total</u>	<u>15,000,000</u>	<u>100.00</u>	<u>50,000,000</u>	<u>100.00</u>

/a Including individuals representing major business group.

/b Including shares to be purchased by KDFC's employees.

KOREA

KOREA DEVELOPMENT FINANCE CORPORATION

List of Directors of KLTCB

Directors

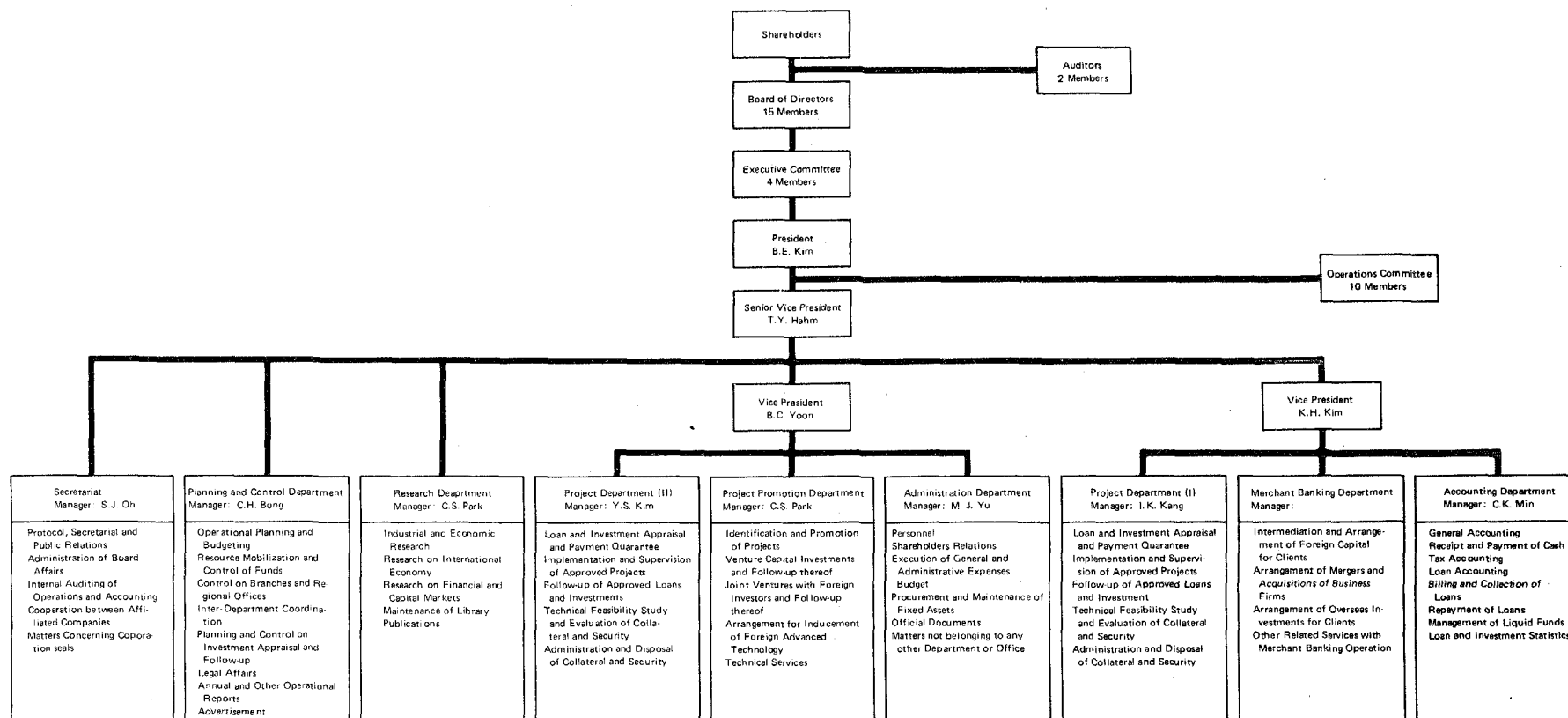
Chin Hyung Kim /a	Chairman
Bong Eun Kim /a	President
Tae Yong Hahm /a	Deputy President
Byung Chul Yoon /a	Managing Director
Kwang Hyun Kim /a	Managing Director
Yun Soo Kim	Director
Il Kyu Kang	Director
Cha Kyung Koo	Chairman, Lucky Group
Yong Joo Kim	Chairman, Chonbang Co., Ltd.
Un Hoe Park	Chairman and President, Korea Reinsurance Co.
Sung Taek Suh	Chairman, Ssangyong Cement Industrial Co., Ltd.
Ju Yung Chung	Chairman, Federation of Korean Industries
Choon Taik Chung	Chairman and President, Korea Exchange Bank
Tai Sup Choi	Chairman, Hankuk Glass Industry Co. Ltd.
Byung Hi Chang	Chairman, Young Poong Trading Co., Ltd.
Yeong Ki Haah	President, Korea First Bank
Naokado Nishihara	Special Representative in the Far East, IFC
Teruyuki Ohuchi	General Manager, International Dept., Industrial Bank of Japan, Ltd.
Paul Von Benckendorff	General Manager, Deutsche Bank AG, Hong Kong Branch
Y.J.P. Bourdeau	Resident Vice President and Manager, Bank of Montreal, Seoul Branch

Auditors

Chung Hyun Son	Auditor-Inspector (Standing)
Bong Jai Kim	President, Korea Federation of Small Business
Soo Chang Chung	Chairman, Doo San Group

/a Also Executive Committee Members.

**KOREA
KOREA DEVELOPMENT FINANCE CORPORATION**
Organization Chart
(As of December 31, 1979)



KOREA

KOREA DEVELOPMENT FINANCE CORPORATION

A. Staff Position of KDFC

	<u>Actual</u>				<u>Estimated</u>				
	1976	1977	1978	1979	1980	1981	1982	1983	1984
Executives	3	4	5	5	5	5	5	5	5
Managers	6	7	7	7	12	12	12	12	12
Subtotal	<u>9</u>	<u>11</u>	<u>12</u>	<u>12</u>	<u>17</u>	<u>17</u>	<u>17</u>	<u>17</u>	<u>17</u>
Professional staff									
Economists	4	4	8	9	13	15	20	24	29
Financial analysts	9	11	13	16	26	28	34	38	44
Marketing analysts	8	9	10	14	20	20	24	26	29
Engineers	9	10	11	10	13	15	18	19	20
Accountants	3	5	7	6	13	15	21	22	23
Loan officer in charge of follow-up	12	13	12	11	19	23	24	26	30
Others	19	20	16	18	26	38	60	85	117
Subtotal	<u>65</u>	<u>72</u>	<u>77</u>	<u>84</u>	<u>130</u>	<u>154</u>	<u>201</u>	<u>240</u>	<u>292</u>
Nonprofessional staff	28	43	40	42	73	86	89	105	126
Other employees (drivers, messengers, etc.)	11	13	23	25	25	28	28	33	40
Subtotal	<u>39</u>	<u>56</u>	<u>63</u>	<u>67</u>	<u>98</u>	<u>114</u>	<u>117</u>	<u>138</u>	<u>166</u>
Total	<u>113</u>	<u>139</u>	<u>152</u>	<u>163</u>	<u>245</u>	<u>285</u>	<u>335</u>	<u>395</u>	<u>475</u>

B. Professional Staff Recruitment Plan, 1980-83

	1980	1981	1982	1983	1984
<u>Appraisal Staff</u>					
Financial analysts	10	2	6	4	6
Economists	4	2	5	4	5
Market analysts	6	-	4	2	3
Engineers	3	2	3	1	1
Subtotal	<u>23</u>	<u>6</u>	<u>18</u>	<u>11</u>	<u>15</u>
<u>Others</u>					
Accountants	7	2	6	1	1
Loan officers in charge of follow-up	8	4	1	2	4
Administrative officers	8	12	22	25	32
Subtotal	<u>23</u>	<u>18</u>	<u>20</u>	<u>28</u>	<u>37</u>
Total	<u>46</u>	<u>24</u>	<u>47</u>	<u>39</u>	<u>52</u>

KOREA

KOREA DEVELOPMENT FINANCE CORPORATION

Summary of Operations (1968-79)

	1968-74 /b		1975		1976		1977		1978		1979		Total (1968-79)	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Domestic Currency Loans (W mln)														
Approvals	63	5,799	5	635	7	745	17	1,670	21	2,981	23	3,200	136	15,030
Commitments	63	5,799	5	635	6	645	18	1,712	20	2,739	21	3,300	133	14,830
Disbursements	-	5,599	-	502	-	733	-	852	-	3,172	-	3,392	-	14,250
Repayments	-	1,907	-	787	-	1,067	-	1,366	-	967	-	1,344	-	7,438
Outstanding at year-end	42	3,692	40	3,407	41	3,073	41	2,559	52	4,764	68	6,812		
Equity Investment (W mln)														
Approvals	19	1,899	7	349	9	1,029	10	887	12	1,775	11	1,468	68	7,407
Commitments	19	1,899	6	213	10	1,165	10	887	12	1,775	11	1,468	68	7,407
Disbursements	-	1,169	-	764	-	1,062	-	633	-	2,036	-	1,550	-	7,214
Converted from debenture	4	650	-	-	-	-	3	219	1	30	-	-	8	899
Sales of equity	-	50	-	148	-	122	-	-	-	76	-	69	-	465
Outstanding at year-end	20	1,778/a	27	2,394	37	3,334	50	4,186	64	6,176	73	7,657		
Debentures (W mln)														
Approvals	12	1,410	2	180	4	410	4	480	-	-	5	810	27	3,290
Commitments	11	1,310	3	250	4	440	4	480	-	-	4	760	26	3,240
Disbursements	-	1,310	-	250	-	440	-	480	-	-	-	460	-	2,940
Repayments	-	407	-	98	-	42	-	131	-	415	-	183	-	1,276
Conversion into equity	4	650	-	-	-	-	3	219	1	30	-	-	8	899
Outstanding at year-end	5	253	7	405	9	803	9	933	6	488	8	765		
Revolving Funds (\$'000)														
Approvals	-	-	-	-	-	-	-	-	-	-	7	1,767	7	1,767
Commitments	-	-	-	-	-	-	-	-	-	-	7	1,767	7	1,767
Disbursements	-	-	-	-	-	-	-	-	-	-	7	1,767	7	1,767
Repayments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Add: Fluctuations from foreign exchange rates	-	-	-	-	-	-	-	-	-	-	-	267	-	267
Outstanding at year-end	-	-	-	-	-	-	-	-	-	-	7	2,034		
Foreign Currency Loans (\$'000)														
Approvals	136	105,284	43	42,000	66	61,027	62	70,225	61	94,948	86	122,962	454	497,356
Commitments	134	94,201	43	41,274	55	66,773	63	69,031	66	82,900	80	125,282	441	479,461
Disbursements	-	83,489	-	23,683	-	64,928	-	42,706	-	87,583	-	114,174	-	416,563
Repayments	-	12,401	-	5,988	-	9,876	-	13,114	-	18,589	-	23,446	-	83,414
Add: Fluctuations from foreign exchange rates	-	1,178	-	(2,186)	-	3,880	-	15,430	-	23,419	-	(10,546)	-	31,175
Outstanding at year-end	114	72,266	151	87,775	203	146,707	245	191,729	299	284,142	365	364,324		
Total (W mln equivalent)														
Approvals	230	50,776	57	21,975	86	31,782	93	37,096	94	50,806	132	65,972	692	258,407
Commitments	227	46,289	57	21,116	75	34,635	95	36,559	98	44,721	123	67,147	675	250,467
Disbursements	-	41,120	-	13,002	-	33,725	-	22,677	-	47,686	-	61,633	-	219,843
Repayments	-	7,272	-	3,937	-	6,021	-	7,857	-	10,474	-	12,967	-	48,528
Add: Fluctuations from foreign exchange rates	-	6,924	-	(1,060)	-	1,882	-	7,484	-	11,358	-	(4,985)	-	21,603
Outstanding at year-end /c	181	40,772	225	48,777	290	78,363	345	100,667	421	149,237	521	191,918		
Guarantee (W mln)														
Approvals	1	30	2	424	-	-	-	-	-	-	-	-	3	454
Outstanding at year-end	1	30	2	424	2	424	2	424	2	403	1	200	1	200

/a Including a stock dividend of W 9 million.

/b Foreign exchange rate applied: \$1.00 = W 281.90 for 1968; W 200.20 for 1969; W 317.40 for 1970; W 374.10 for 1971; W 300.70 for 1972; W 308.50 for 1973; W 405.00 for 1974-79.

/c Foreign exchange rate applied: \$1.00 = W 485.00.

KOREA
KOREA DEVELOPMENT FINANCE CORPORATION

Sectoral Distribution of Loans Approved, 1968-79 /a

Sectoral distribution	1968-74					1975					1976					1977					1978					1979					Cumulative total (1968-79)					
	No.	W	S	EW	I	No.	W	S	EW	I	No.	W	S	EW	I	No.	W	S	EW	I	No.	W	S	EW	I	No.	W	S	EW	I	No.	W	S	EW	I	
Manufacturing Industries																																				
Consumer Goods Industries																																				
Food, beverage & tobacco	18	285	10,924	4,608	9.7	4	-	1,757	852	4.0	1	-	793	385	1.3	-	-	-	-	-	2	-	3,175	1,540	3.1	3	-	7,250	3,516	5.5	28	285	23,899	10,901	4.4	
Textile, wearing apparel & leather	37	1,360	21,247	9,769	20.6	11	80	11,434	5,626	26.2	26	260	15,482	7,769	25.6	6	50	2,531	1,278	3.6	13	350	2,684	1,652	3.4	19	380	16,654	8,457	13.3	112	2,480	70,032	34,551	13.9	
Printing & publishing	1	-	282	112	0.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	-	282	112	0.1	
Subtotal	56	1,645	32,453	14,489	30.5	15	80	13,191	6,478	30.2	27	260	16,275	8,154	26.9	6	50	2,531	1,278	3.6	15	350	5,859	3,192	6.5	22	380	23,904	11,973	18.8	141	2,765	94,213	45,564	18.4	
Intermediate Goods Industries																																				
Wood & wood products	1	80	279	190	0.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2	80	70	114	0.2	3	150	1,454	855	1.3	6	310	1,803	1,159	0.5	
Paper & paper products	4	-	2,632	1,042	2.2	-	-	-	-	-	-	-	-	-	-	-	1	200	3,285	1,793	5.0	3	300	10,200	5,247	10.7	3	200	1,828	1,087	1.7	11	700	17,945	9,169	3.7
Chemical, rubber, plastic, petroleum & coal	19	1,141	6,451	3,694	7.8	3	-	1,151	558	2.6	6	-	5,860	2,842	9.4	8	60	10,771	5,284	14.8	7	380	12,601	6,492	13.2	10	750	12,717	6,918	10.9	53	2,331	49,551	25,788	10.4	
Nonmetallic mineral products	20	500	8,372	3,813	8.0	5	100	2,547	1,335	6.2	3	-	895	434	1.4	7	170	3,964	2,093	5.9	7	200	9,347	4,733	9.7	12	420	14,580	7,491	11.8	54	1,390	39,705	19,899	8.0	
Subtotal	44	1,721	17,734	8,739	18.4	8	100	3,698	1,893	8.8	9	-	6,755	3,276	10.8	16	430	18,020	9,170	25.7	19	940	32,218	16,586	33.8	28	1,520	30,579	16,351	25.7	124	4,731	109,004	56,015	22.6	
Capital Goods Industries																																				
Basic metal	6	450	6,344	2,961	6.2	3	-	2,645	1,283	6.0	1	-	3,701	1,795	5.9	-	-	-	-	-	1	-	3,895	1,889	3.8	4	500	17,170	8,828	13.8	15	950	33,755	16,756	6.8	
Metal products	16	816	4,739	2,691	5.7	4	-	1,512	733	3.4	7	50	5,029	2,489	8.2	6	500	3,189	2,047	5.7	8	230	10,422	5,285	10.8	14	500	15,464	8,000	12.5	55	2,096	40,355	21,245	8.6	
Machinery (excl. electric)	2	100	1,217	582	1.2	1	-	1,723	836	3.9	3	140	2,807	1,501	4.9	5	-	5,063	2,456	6.9	6	-	11,557	5,605	11.4	9	-	8,001	3,880	6.1	26	240	30,368	14,860	6.0	
Electrical & electronic products	14	377	3,172	1,632	3.4	1	-	3,660	1,775	8.3	2	-	480	233	0.8	4	200	4,590	2,426	6.8	2	100	969	570	1.2	5	-	1,256	609	1.0	28	677	14,127	7,245	2.9	
Transport equipment	-	-	-	-	-	4	-	8,157	3,956	18.4	2	-	1,106	536	1.8	5	340	10,654	5,507	15.4	1	100	-	100	0.2	1	-	250	121	0.2	13	440	20,167	10,220	4.1	
Subtotal	38	1,743	15,472	7,866	16.5	13	-	17,697	8,583	40.0	15	190	13,123	6,554	21.6	20	1,040	23,496	12,436	34.8	18	430	26,843	13,449	27.4	33	1,000	42,141	21,438	33.6	137	4,403	138,772	70,326	28.4	
Miscellaneous mfg. industries	-	-	-	-	-	-	-	-	-	-	1	-	308	149	0.5	1	-	271	131	0.3	1	-	77	37	0.1	-	-	-	-	-	3	-	656	317	0.1	
Total	138	5,109	65,659	31,094	65.4	36	180	34,586	16,954	79.0	52	430	36,461	18,133	59.8	43	1,520	44,318	23,015	64.4	53	1,740	64,997	33,244	67.8	83	2,900	96,624	49,762	78.1	405	11,899	342,645	172,222	69.5	
Nonmanufacturing Industries																																				
Agriculture & forestry	2	130	122	178	0.4	2	433	40	453	2.1	1	-	356	173	0.6	5	50	2,034	1,036	2.9	3	-	380	184	0.4	5	100	3,125	1,616	2.5	18	713	6,057	3,640	1.5	
Fisheries	21	-	16,664	6,595	13.9	3	-	1,666	808	3.8	-	-	-	-	-	3	-	5,645	2,738	7.7	3	-	3,909	1,896	3.9	-	30	-	-	-	-	30	-	27,884	12,037	4.9
Mining & quarrying	4	320	852	657	1.4	1	-	1,314	637	3.0	-	-	-	-	-	2	-	1,341	650	1.8	-	-	-	-	-	1	-	460	223	0.4	8	320	3,967	2,167	0.9	
Electricity & water works	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Construction	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3	-	5,224	2,534	7.1	-	-	-	-	-	1	-	3,210	1,557	2.4	4	-	8,434	4,091	1.7	
Marine transportation service	14	200	20,108	8,158	17.2	3	-	4,903	2,378	11.1	7	-	19,235	9,329	30.7	4	-	8,013	3,886	10.9	6	200	12,900	6,456	13.2	4	-	15,100	7,324	11.5	38	400	80,259	37,531	15.1	
Storage & warehousing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Banking & insurance	-	-	-	-	-	-	-	-	-	-	5	-	4,975	2,413	7.9	-	-	-	-	-	-	2	500	10,000	5,350	10.9	-	-	-	-	-	7	500	14,975	7,763	3.1
Hotel & tourism	1	-	1,300	515	1.1	1	-	400	194	0.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2	-	1,700	709	0.3	
Other nonmanufacturing industries	4	40	580	270	0.6	1	22	-	22	0.1	2	295	-	295	1.0	2	100	3,650	1,870	5.2	6	541	2,762	1,881	3.8	5	200	6,210	3,212	5.1	20	1,198	13,202	7,550	3.0	
Total	46	690	39,626	16,373	34.6	11	455	8,323	4,492	21.0	15	295	24,566	12,210	40.2	19	150	25,907	12,714	35.6	20	1,241	29,951	15,767	32.2	16	300	28,105	13,932	21.9	127	3,131	156,678	75,488	30.5	
GRAND TOTAL:	184	5,799	105,285	47,467	100.0	47	635	42,909	21,446	100.0	67	745	61,027	30,343	100.0	62	1,670	70,225	35,729	100.0	73	2,981	94,948	49,031	100.0	96	3,200	124,729	63,694	100.0	532	15,030	499,123	247,710	100.0	

a Exchange rates applied: US\$1.00 = W 281.9 in 1968; W 305.2 in 1969; W 317.4 in 1970; W 374.1 in 1971; W 399.7 in 1972; W 398.5 in 1973; W 485.0 in 1974, 1975, 1976 and 1977.

Characteristics of Loans Approved
(W million, US\$'000)

ANNEX B
Table 9

KOREA

KOREA DEVELOPMENT FINANCE CORPORATION

Loan and Investment to Small and Medium Size Enterprises /a
(in W million)

	1975				1976				1977			
	<u>Total approval</u>		<u>Small and medium size enterprises</u>		<u>Total approval</u>		<u>Small and medium size enterprises</u>		<u>Total approval</u>		<u>Small and medium size enterprises</u>	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Loan	48	21,446	14	2,261	73	30,343	38	8,715	79	35,729	34	9,941
Debenture	2	180	1	30	4	410	2	160	4	480	2	230
Investment	7	349	3	110	9	1,029	6	205	10	887	4	268
<u>Total</u>	<u>57</u>	<u>21,975</u>	<u>18</u>	<u>2,401</u>	<u>86</u>	<u>31,782</u>	<u>46</u>	<u>9,080</u>	<u>93</u>	<u>37,096</u>	<u>40</u>	<u>10,439</u>

	1978				1979				Cumulative (1975-79)					
	<u>Total approval</u>		<u>Small and medium size enterprises</u>		<u>Total approval</u>		<u>Small and medium size enterprises</u>		<u>Total approval(A)</u>		<u>Small and medium size enterprises</u>		<u>Ratio (B/A)</u>	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Loan	82	49,031	41	8,211	116	63,694	37	10,599	398	200,243	164	39,727	41.2	19.8
Debenture	-	-	-	-	5	810	1	60	15	1,880	6	480	40.0	25.5
Investment	12	1,775	3	160	11	1,468	3	205	49	5,508	19	948	38.8	17.2
<u>Total</u>	<u>94</u>	<u>50,806</u>	<u>44</u>	<u>8,371</u>	<u>132</u>	<u>65,972</u>	<u>41</u>	<u>10,864</u>	<u>462</u>	<u>207,631</u>	<u>189</u>	<u>41,155</u>	<u>40.9</u>	<u>19.8</u>

/a Enterprises with total assets not exceeding W 500 million (\$860,000), or employing not less than 300 employees.

KOREA

KOREA DEVELOPMENT FINANCE CORPORATION

KDFC: Characteristics of Equity and Convertible Debenture Investment Approved
(Unit: million won)

A. Equity

	1968-74			1975			1976			1977			1978			1979			Total		
	No.	Amt.	%	No.	Amt.	%	No.	Amt.	%	No.	Amt.	%	No.	Amt.	%	No.	Amt.	%	No.	Amt.	%
<u>Purpose</u>																					
New establishment	3	1,008	53.1	2	100	28.6	2	545	53.0	1	69	7.8	1	100	5.6	2	112	7.6	11	1,934	26.1
<u>Expansion</u>																					
Rights issue	5	257	13.5	4	113	32.4	5	384	37.3	6	243	27.4	10	1,375	77.5	9	1,356	92.4	39	3,728	50.3
New acquisition	11	634	33.4	1	136	39.0	2	100	9.7	3	575	64.8	1	300	16.6	-	-	-	18	1,745	23.6
Subtotal	16	891	46.9	5	249	71.4	7	484	47.0	9	818	92.2	11	1,675	94.4	9	1,356	92.4	57	5,473	73.9
Total	19	1,899	100.0	7	349	100.0	9	1,029	100.0	10	887	100.0	12	1,775	100.0	11	1,468	100.0	68	7,407	100.0
<u>Loan</u>																					
With loan approval (equity + loan)	15	837	44.1	3	236	67.6	7	1,011	98.3	8	849	95.7	3	728	41.0	3	472	32.2	39	4,133	55.8
Without loan approval	4	1,062	55.9	4	113	32.4	2	18	1.7	2	38	4.3	9	1,047	59.0	8	996	67.8	29	3,274	44.2
Total	19	1,899	100.0	7	349	100.0	9	1,029	100.0	10	887	100.0	12	1,775	100.0	11	1,468	100.0	68	7,407	100.0
<u>Size Distribution</u>																					
Below 100	13	480	25.3	6	213	61.0	7	263	25.6	8	288	32.5	6	246	13.9	8	441	30.0	48	1,931	26.1
100 - 199	4	580	30.5	1	136	39.0	-	-	-	1	124	14.0	3	306	17.2	1	100	6.8	10	1,246	16.8
200 - 299	1	288	15.2	-	-	-	1	281	27.3	-	-	-	-	-	-	-	-	2	569	7.7	
Over 300	1	551	29.0	-	-	-	1	485	47.1	1	475	53.5	3	1,223	68.9	2	927	63.2	8	3,661	49.4
Total	19	1,899	100.0	7	349	100.0	9	1,029	100.0	10	887	100.0	12	1,775	100.0	11	1,468	100.0	68	7,407	100.0
<u>Listing</u>																					
Listed	9	888	46.8	3	199	57.0	2	339	32.9	3	223	25.1	7	1,495	84.2	6	903	61.5	30	4,047	54.6
Unlisted	10	1,011	53.2	4	150	43.0	7	690	67.1	7	664	74.9	5	280	15.8	5	565	38.5	38	3,360	45.4
Total	19	1,899	100.0	7	349	100.0	9	1,029	100.0	10	887	100.0	12	1,775	100.0	11	1,468	100.0	68	7,407	100.0
<u>Geographical Distribution</u>																					
Seoul	6	1,175	61.9	1	40	11.5	1	281	27.3	1	2	0.2	1	535	30.1	4	1,032	70.3	14	3,065	41.4
Busan	3	391	20.6	-	-	-	-	-	-	1	124	14.0	2	488	27.5	-	-	-	6	1,003	13.5
Kyunggi-Do	8	219	11.5	3	169	48.4	3	70	6.8	5	167	18.8	6	412	23.2	6	396	27.0	31	1,433	19.3
Kyungsangbuk-Do	-	-	-	-	-	-	1	50	4.9	-	-	-	-	-	-	-	-	1	50	0.7	
Kyungsangnam-Do	1	50	2.6	2	90	25.8	3	570	55.4	-	-	-	2	40	2.3	1	40	2.7	9	790	10.7
Chungchungbuk-Do	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Chungchungnam-Do	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Chunnabuk-Do	1	64	3.4	-	-	-	1	58	5.6	1	69	7.8	-	-	-	-	-	-	3	191	2.6
Chunnanam-Do	-	-	-	1	50	14.3	-	-	-	1	475	53.6	1	300	16.9	-	-	-	3	825	11.1
Marine transportation	-	-	-	-	-	-	-	-	-	1	50	5.6	-	-	-	-	-	-	1	50	0.7
Total	19	1,899	100.0	7	349	100.0	9	1,029	100.0	10	887	100.0	12	1,775	100.0	11	1,468	100.0	68	7,407	100.0

A. Equity (Continued)

	1968-74			1975			1976			1977			1978			1979			Total		
	No.	Amt.	%	No.	Amt.	%	No.	Amt.	%	No.	Amt.	%	No.	Amt.	%	No.	Amt.	%	No.	Amt.	%
Sectoral Distribution																					
Manufacturing Industries																					
Consumer Goods Industries																					
Food, beverage & tobacco	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Textile, wearing apparel & leather	6	231	12.2	1	10	2.9	3	70	6.8	2	77	8.7	-	-	-	-	-	-	12	388	5.2
Printing & publishing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Subtotal	6	231	12.2	1	10	2.9	3	70	6.8	2	77	8.7	-	-	-	-	-	-	12	388	5.2
Intermediate Goods Industries																					
Wood & wood products	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Paper & paper products	1	64	3.4	-	-	-	1	58	5.7	-	-	-	-	-	-	-	-	-	2	122	1.6
Chemical, rubber, plastic, petroleum & coal	5	352	18.5	1	23	6.6	-	-	-	2	599	67.5	4	820	46.2	2	85	5.8	14	1,879	25.4
Nonmetallic mineral products	1	33	1.7	1	40	11.5	1	60	5.8	-	-	-	2	40	2.2	2	95	6.5	7	268	3.6
Subtotal	7	449	23.6	2	63	18.1	2	118	11.5	2	599	67.5	6	860	48.4	4	180	12.3	23	2,269	30.6
Capital Goods Industries																					
Basic metal	-	-	-	-	-	-	1	485	47.5	-	-	-	-	-	-	-	-	-	1	485	6.5
Metal products	2	60	3.2	1	40	11.5	-	-	-	1	50	5.6	-	-	-	1	62	4.2	5	212	2.9
Machinery (excl. electric)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Electrical machinery, apparatus, appliance & supplies	-	-	-	-	-	-	1	50	4.9	2	73	8.2	3	228	12.9	2	198	13.5	8	549	7.4
Transport equipment	-	-	-	1	136	39.0	-	-	-	1	36	4.1	1	52	2.9	1	51	3.5	4	275	3.7
Subtotal	2	60	3.2	2	176	50.4	2	535	52.0	4	159	17.9	4	280	15.8	4	311	21.2	18	1,521	20.5
Miscellaneous Mfg. Industries																					
Total	15	740	39.0	5	249	71.4	7	723	70.3	8	835	94.1	10	1,140	64.2	8	491	33.4	53	4,178	56.4
Nonmanufacturing Industries																					
Agriculture & forestry, fishery	-	-	-	2	100	28.6	1	25	2.4	-	-	-	-	-	-	-	-	-	3	125	1.7
Mining & quarrying	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Electricity & water works	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Construction	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Marine transportation, storage & warehousing	-	-	-	-	-	-	-	-	-	1	50	5.7	-	-	-	-	-	-	1	50	0.7
Banking & insurance	3	990	52.1	-	-	-	1	281	27.3	1	2	0.2	1	535	30.1	2	927	63.2	8	2,735	36.9
Hotel & tourism	1	169	8.9	-	-	-	-	-	-	-	-	-	1	100	5.7	-	-	-	2	269	3.6
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	50	3.4	1	50	0.7
Total	4	1,159	61.0	2	100	28.6	2	306	29.7	2	52	5.9	2	635	35.8	3	977	66.6	15	3,229	43.6
GRAND TOTAL	19	1,899	100.0	7	349	100.0	9	1,029	100.0	10	887	100.0	12	1,755	100.0	11	1,468	100.0	68	7,407	100.0

B. Bond and Convertible Debenture

	<u>1968-74</u>			<u>1975</u>			<u>1976</u>			<u>1977</u>			<u>1978</u>			<u>1979</u>			<u>Total</u>		
	No.	Amt.	%	No.	Amt.	%	No.	Amt.	%	No.	Amt.	%	No.	Amt.	%	No.	Amt.	%	No.	Amt.	%
<u>Purpose</u>																					
New establishment	-	-	-	-	-	-	2	60	14.6	-	-	-	-	-	-	1	300	37.0	3	360	10.9
Expansion	12	1,410	100.0	2	180	100.0	2	350	85.4	4	480	100.0	-	-	-	4	510	63.0	24	2,930	98.1
<u>Total</u>	<u>12</u>	<u>1,410</u>	<u>100.0</u>	<u>2</u>	<u>180</u>	<u>100.0</u>	<u>4</u>	<u>410</u>	<u>100.0</u>	<u>4</u>	<u>480</u>	<u>100.0</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5</u>	<u>810</u>	<u>100.0</u>	<u>27</u>	<u>3,290</u>	<u>100.0</u>
<u>Loan</u>																					
With loan approval	8	830	58.9	-	-	-	3	385	93.9	1	30	6.3	-	-	-	3	410	50.6	15	1,655	50.3
Without loan approval	4	580	41.1	2	180	100.0	1	25	6.1	3	450	93.7	-	-	-	2	400	49.4	12	1,635	49.7
<u>Total</u>	<u>12</u>	<u>1,410</u>	<u>100.0</u>	<u>2</u>	<u>180</u>	<u>100.0</u>	<u>4</u>	<u>410</u>	<u>100.0</u>	<u>4</u>	<u>480</u>	<u>100.0</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5</u>	<u>810</u>	<u>100.0</u>	<u>27</u>	<u>3,290</u>	<u>100.0</u>
<u>Size Distribution</u>																					
Below 100	4	140	9.9	1	30	16.7	2	60	14.6	1	30	6.2	-	-	-	2	110	13.6	10	370	11.2
100 - 199	5	520	36.9	1	150	83.3	1	100	24.4	2	250	52.1	-	-	-	-	-	-	9	1,020	31.0
200 - 299	2	450	31.9	-	-	-	1	250	61.0	1	200	41.7	-	-	-	2	400	49.4	6	1,300	39.5
Over 300	1	300	21.3	-	-	-	-	-	-	-	-	-	-	-	-	1	300	37.0	2	600	18.3
<u>Total</u>	<u>12</u>	<u>1,410</u>	<u>100.0</u>	<u>2</u>	<u>180</u>	<u>100.0</u>	<u>4</u>	<u>410</u>	<u>100.0</u>	<u>4</u>	<u>480</u>	<u>100.0</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5</u>	<u>810</u>	<u>100.0</u>	<u>27</u>	<u>3,290</u>	<u>100.0</u>
<u>Listing</u>																					
Listed	4	650	46.1	1	150	83.3	-	-	-	-	-	-	-	-	-	2	400	52.6	7	1,200	36.5
Unlisted	8	760	53.9	1	30	16.7	4	410	100.0	4	480	100.0	-	-	-	3	410	50.6	20	2,090	63.5
<u>Total</u>	<u>12</u>	<u>1,410</u>	<u>100.0</u>	<u>2</u>	<u>180</u>	<u>100.0</u>	<u>4</u>	<u>410</u>	<u>100.0</u>	<u>4</u>	<u>480</u>	<u>100.0</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5</u>	<u>810</u>	<u>100.0</u>	<u>27</u>	<u>3,290</u>	<u>100.0</u>
<u>Geographical Distribution</u>																					
Seoul	4	330	23.4	-	-	-	2	350	85.4	1	100	20.8	-	-	-	-	-	-	7	780	23.7
Busan	1	200	14.2	-	-	-	-	-	-	1	150	31.3	-	-	-	1	200	24.7	3	550	16.7
Kyunggi-Do	4	450	31.9	2	180	100.0	-	-	-	1	30	6.2	-	-	-	3	410	50.6	10	1,070	32.5
Kyungsangbuk-Do	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Kyungsangnam-Do	-	-	-	-	-	-	-	-	-	1	200	41.7	-	-	-	-	-	-	1	200	6.1
Chungchungbuk-Do	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Chungchungnam-Do	1	60	4.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	60	1.8
Chunnabuk-Do	1	250	17.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	250	7.6
Chunnanam-Do	1	120	8.5	-	-	-	2	60	14.6	-	-	-	-	-	-	1	200	24.7	4	380	11.6
Marine transportation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<u>Total</u>	<u>12</u>	<u>1,410</u>	<u>100.0</u>	<u>2</u>	<u>180</u>	<u>100.0</u>	<u>4</u>	<u>410</u>	<u>100.0</u>	<u>4</u>	<u>480</u>	<u>100.0</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5</u>	<u>810</u>	<u>100.0</u>	<u>27</u>	<u>3,290</u>	<u>100.0</u>

B. Bond and Convertible Debenture (Continued)

	1968-74			1975			1976			1977			1978			1979			Total		
	No.	Amt.	%	No.	Amt.	%	No.	Amt.	%	No.	Amt.	%	No.	Amt.	%	No.	Amt.	%	No.	Amt.	%
Sectoral Distribution																					
Manufacturing Industries																					
Consumer Goods Industries																					
Food, beverage & tobacco	1	100	7.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	100	3.0
Textile, wearing apparel & leather	1	120	8.5	-	-	-	-	-	-	2	250	52.1	-	-	-	-	-	-	3	370	11.2
Printing & publishing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Subtotal	2	220	15.6	-	-	-	-	-	-	2	250	52.1	-	-	-	-	-	-	4	470	14.2
Intermediate Goods Industries																					
Wood & wood products	2	50	3.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2	50	1.5
Paper & paper products	1	250	17.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	250	7.6
Chemical, rubber, plastic, petroleum & coal	1	200	14.2	1	30	16.7	-	-	-	1	30	6.2	-	-	-	2	400	49.4	5	660	2.0
Nonmetallic mineral products	3	500	35.5	-	-	-	1	250	61.0	-	-	-	-	-	-	-	-	-	4	750	22.8
Subtotal	7	1,000	70.9	1	30	16.7	1	250	61.0	1	30	6.2	-	-	-	2	400	49.4	12	1,710	51.9
Capital Goods Industries																					
Basic metal	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Metal products	1	60	4.3	-	-	-	1	100	24.4	-	-	-	-	-	-	1	50	6.2	3	210	6.4
Machinery (excl. electric)	1	100	7.1	-	-	-	-	-	-	-	-	-	-	-	-	1	60	7.4	2	160	4.9
Electrical machinery, apparatus, appliance & supplies	1	30	2.1	1	150	83.3	-	-	-	-	-	-	-	-	-	-	-	-	2	180	5.6
Transport equipment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Subtotal	3	190	13.5	1	150	83.3	1	100	24.4	-	-	-	-	-	-	2	110	13.6	7	550	16.9
Miscellaneous Mfg. Industries																					
Total	12	1,410	100.0	2	180	100.0	2	350	85.4	3	280	58.3	-	-	-	4	510	63.0	23	2,730	83.0
Nonmanufacturing Industries																					
Agriculture & forestry, fishery	-	-	-	-	-	-	2	60	14.6	1	200	41.7	-	-	-	-	-	-	3	260	7.9
Mining & quarrying	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Electricity & water works	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Construction	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	300	37.0	1	300	9.1
Marine transportation, storage & warehousing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Banking & insurance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Hotel & tourism	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	2	60	14.6	1	200	41.7	-	-	-	1	300	37.0	4	560	17.0
GRAND TOTAL	12	1,410	100.0	2	180	100.0	4	410	100.0	4	480	100.0	-	-	-	5	810	100.0	27	3,290	100.0

KOREA

KOREA DEVELOPMENT FINANCE CORPORATION

Sectoral Distribution of Loans & Investments Outstanding as of December 31, 1979 /a
(In \$ thousand W million)

	Loans				Equity investment		Debenture	
	Foreign currency		Won currency					
	No. of clients	Amount	No. of clients	Amount	No. of clients	Amount	No. of clients	Amount
<u>Manufacturing Industries</u>								
<u>Consumer Goods Industries</u>								
Food beverage & tobacco	21	11,903	-	-	1	100	-	-
Textile, wearing apparel & leather	83	47,617	10	844	10	170	2	53
Printing & publishing	1	140	-	-	-	-	-	-
Subtotal	<u>105</u>	<u>59,660</u>	<u>10</u>	<u>844</u>	<u>11</u>	<u>270</u>	<u>2</u>	<u>53</u>
<u>Intermediate Goods Industries</u>								
Wood & wood products	4	1,615	1	80	1	44	-	-
Paper & paper products	5	15,411	4	680	3	372	-	-
Chemicals, rubber & plastics	37	34,196	11	940/b	16	1,867	2	400
petroleum & coal	31	20,804	8	726	9	367	-	-
Nonmetallic mineral products								
Subtotal	<u>77</u>	<u>72,126</u>	<u>24</u>	<u>2,426</u>	<u>29</u>	<u>2,650</u>	<u>2</u>	<u>400</u>
<u>Capital Goods Industries</u>								
Basic metals	14	17,660	5	479	1	485	-	-
Metal products	40	25,618	9	578	4	196	1	52
Machinery (excl. electrical)	18	19,625	2	172	-	-	1	60
Electrical machinery, apparatus, appliances & supplies	18	9,730	2	188	9	699	-	-
Transport equipment	9	19,693	2	400	4	275	-	-
Subtotal	<u>99</u>	<u>92,326</u>	<u>20</u>	<u>1,817</u>	<u>18</u>	<u>1,655</u>	<u>2</u>	<u>112</u>
<u>Miscellaneous Mfg. Industries</u>								
	3	610	-	-	-	-	-	-
Total Mfg. Industries	<u>284</u>	<u>224,722</u>	<u>54</u>	<u>5,087</u>	<u>58</u>	<u>4,575</u>	<u>6</u>	<u>565</u>
<u>Nonmanufacturing Industries</u>								
Agriculture, forestry and fisheries	29	21,938	4	449	4	150	2	200
Mining & quarrying	6	3,532	-	-	-	-	-	-
Electricity & waterworks	-	-	-	-	-	-	-	-
Construction	6	7,507	-	-	-	-	-	-
Transportation (incl. storage & warehousing)	42	60,109	4	211	1	50	-	-
Banking & insurance	3	11,689	1	333	8	2,613	-	-
Hotel & tourism	1	1,652	-	-	2	269	-	-
Other	1	3,767	5	732	-	-	-	-
Total Nonmfg. Industries	<u>88</u>	<u>110,194</u>	<u>14</u>	<u>1,725</u>	<u>15</u>	<u>3,082</u>	<u>2</u>	<u>200</u>
GRAND TOTAL	<u>372</u>	<u>334,916</u>	<u>68</u>	<u>6,812</u>	<u>73</u>	<u>7,657</u>	<u>8</u>	<u>765</u>

/a Excluding fluctuations from foreign exchange rates.

/b Including stock dividends of 9 million received in 1973.

ANNEX B
Table 13

KOREA

KOREA DEVELOPMENT FINANCE CORPORATION

Subproject Approved or Under Consideration for Financing Under Loan 1635-KO, as of Dec. 31, 1979
(US\$'000)

Name of Company	Type of Industry	Type of project	Project cost		KDFC financing		Rate of return (%) Financial (Economic)	Incremental expected sales (\$)	Incremental job creation (number)	Cost per job (\$)	Foreign owner-ship (%)
			Local (E\$)	Foreign (\$)	Total (E\$)	IBRD (\$)					
(approved)											
Nam Hae Ceramics	non-metallic	E	1,078	637	842	760	-	2,405	28	61	-
Jin Woo Machinery	machinery	E	388	360	504	380	-	2,427	37	20	-
Sam Woo Special Metals	metal	N	619	460	563	460	-	2,118	31	34	-
Tae Joo Industrial	metal	N	5,936	2,800	2,612	700	-	14,548	230	37	-
Korea Atomizer	metal	E	227	117	253	150	-	2,047	31	11	-
Dong Yang Industries Co., Ltd.	non-metallic	N	559	500	500	500	-	1,373	70	15	-
Sun Hak Aluminum Co., Ltd.	electrical	N&E	1,496	1,551	1,614	1,614	-	16,928	260	12	-
Dae Kang Zigmoool Factory	textile	E	280	412	412	412	-	918	12	58	-
Cheil Organic Chemical Company	electrical	N&E	350	1,384	350	350	-	3,373	63	28	-
Sam Hwa Freezing & Cold Storage Co.	food	N	1,419	-	350	350	-	771	67	21	-
Kum Kang Electronics Corporation	electronics	E	93	225	225	225	-	959	10	32	-
Cheun Yang Transportation Co., Ltd.	transportation	E	210	-	100	100	-	505	2	21	-
Chin Yang Machinery Co.	metal products	E	412	300	512	300	-	-	-	-	-
Seshin Commercial Co., Ltd.	metal products	N&E	755	995	1,375	995	-	9,219	50	35	-
Chun Kang Farm	agriculture	E	16	85	85	85	-	33	11	9	-
Kelim Ceramics Co., Ltd.	non-metallic	E	3,398	1,140	1,140	1,140	-	2,208	390	11	-
Dae Yang Co., Ltd	textile	N	2,970	2,250	2,250	1,250	26.9(46.8)	6,169	94	55	-
Hyup Sung Co., Ltd	textile	N	1,670	2,275	1,250	1,250	23.3(33.4)	2,194	148	26	-
Kumho Metal Ind'l Co., Ltd.	metallic products	N	935	315	418	315	-	7,175	35	35	-
Young Dong Chemical Co., Ltd.	chemical products	N	1,678	50	850	850	-	3,472	4	432	-
Yulon Plastic Co., Ltd.	chemical products	E	830	240	500	500	-	1,979	23	46	-
Bosung Special Fiber Co., Ltd	textile	E	1,206	1,000	220	220	-	8,456	28	78	-
Dae Yang Co., Ltd	leather	E	787	300	620	455	-	2,454	120	9	-
Kwangju Dairy Co., Ltd.	agriculture	E	518	800	800	800	-	2,289	69	19	-
Dae Won Sa Co., Ltd.	marine transport	E	592	5,460	5,000	5,000	22.7(26.5)	3,603	31	195	-
Global shipping Co., Ltd.	marine transport	E	442	4,050	4,000	4,000	28.6(30.7)	3,320	28	160	-
Hanil Express Co., Ltd.	transport	E	364	3,500	3,500	3,500	27.1(32.9)	1,580	13	297	-
Yang Yang Transportation Co., Ltd.	transport	E	902	500	500	500	-	642	38	36	-
Chun Kyung Container Terminal Co. Ltd.	transport	E	266	500	500	500	-	1,076	33	22	-
Pohang Furnace Construction Co., Ltd.	construction	E	40	100	100	100	-	2,013	12	11	30.0
Hyungbo Ltd.	textile	E	1,073	900	1,209	900	-	1,213	8	259	-
Seong Hwa Velvet Co., Ltd.	textile	E	248	263	263	263	-	1,318	33	15	-
Korea Kwang Yang Sa Co., Ltd.	paper & printing	E	206	320	320	320	-	309	11	47	-
Gee Gu Note Book Ind. Co.	paper & printing	E	151	175	175	175	-	124	3	-	-
Doo San Farms Co., Ltd.	agriculture	N	222	60	266	60	-	-	7	10	-
U-In Chemical Co., Ltd.	chemical products	N	594	370	370	370	-	8,140	15	64	-
KDLC	other services	E	-	10,000	10,000	10,000	-	10,000	-	-	49.0
Dong In Livestock Farming Co., Ltd.	agriculture	E	638	180	180	180	-	217	25	16	-
Yusung Woolen Textile Co., Ltd.	textile	E	615	800	800	800	-	5,138	49	28	-
Cheil Synthetic Textile Co., Ltd.	textile	E	2,598	2,500	2,500	2,500	37.7(20.2)	-	25	203	29.6
Dai Han City Gas Co., Ltd.	city gas	N	14,837	4,873	5,412	4,500	16.0(11.0)	11,703	200	98	-
Sam Bo Synthetic Textile Co., Ltd.	textile	N	1,753	2,250	2,250	1,020	22.0(32.6)	2,194	133	30	-
Korea Hi-Dap Co., Ltd.	wood	E	548	240	549	240	-	897	70	11	-
Dong Bang Oil and Flour Mills Co. Ltd.	food	E	8,535	3,450	3,450	3,450	35.0(25.9)	9,322	158	75	-
Lee Ku Industrial Co., Ltd.	metal products	E	3,540	1,500	1,809	1,500	17.1(42.7)	8,155	24	210	-
Kuk Bo Transport Co., Ltd.	transport	E	1,045	1,600	1,600	1,600	-	4,963	114	9	-
Cho Heung Textile Co., Ltd.	textile	E	188	380	380	380	-	423	10	56	-
Eagon Industries Co., Ltd.	plywood	E	4,922	3,110	1,000	1,000	-	19,000	650	12	-
Dong Sun Co., Ltd.	textile	E	92	500	500	500	-	200	16	36	-
Young Chang Industrial Co., Ltd.	machinery	E	814	250	250	250	-	3,115	116	9	-
Dong Jin Chemical Industrial Co. Ltd.	chemical	E	127	80	80	80	-	934	37	5	-
Century Electric Co., Ltd.	electronics	E	1,204	180	180	180	-	3,169	51	27	-
Sunglee Electronics Co., Ltd.	electronics	E	15	50	50	50	-	934	40	1	-
Samda Machine Ind'l Co., Ltd	machinery	E	652	200	200	200	-	1,307	37	23	-
Nam Yang Dairy Products Co., Ltd.	food	E	4,437	3,800	3,800	2,000	19.9(25.9)	47,538	210	39	-
Korea Synthetic Rubber Inc. Co., Ltd.	rubber	E	-	1,200	1,200	1,200	-	-	-	-	50.0
Chin Yang Pine Chemical Co., Ltd.	chemical	N	13,231	9,840	8,532	7,500	19.2(17.4)	-	119	168	-
Tong Hai Steel Co., Ltd	metal products	N	2,812	3,950	4,132	3,720	23.3(31.7)	1,520	215	29	-
Il Shin Ind. Co., Ltd.	non-metallic	E	3,449	1,260	2,000	2,000	20.0(29.6)	3,814	8	540	-
Hankuk Glass Inc. Co., Ltd.	non-metallic	E	2,563	2,300	2,300	2,300	26.6(48.6)	-	150	31	27.3
Hee Sung Paper Mfg. Co., Ltd.	paper	E	2,837	695	1,800	1,800	-	-	65	52	-
Sam Hwa Wire Rope Co., Ltd.	metal products	E	2,173	998	1,101	998	-	3,326	56	55	-
Sam Whan Camus Co., Ltd.	other mfg. industries	N	5,849	4,107	3,829	3,210	-	-	502	15	-
Seshin Commercial Co., Ltd.	metal products	E	755	995	995	995	-	2,151	55	30	-
Hanil Cement Mfg. Co., Ltd.	non-metal	E	2,520	1,680	2,100	2,100	31.2(49.9)	-	68	60	-
Dong Yang Steel Co., Ltd	metal products	E	4,342	1,700	1,500	1,500	16.4(17.9)	-	266	23	-
Sam Hwa Crown Cork Co., Ltd.	metal products	E	3,909	2,000	2,206	1,000	29.4(36.5)	-	124	40	-
Lotte Moolan Co., Ltd.	metal products	E	3,105	4,300	4,300	300	21.2(29.9)	1,252	51	137	84.0
Kia Motorcycle Co., Ltd.	machinery & equipment	E	4,876	4,800	3,700	300	26.2(22.1)	1,933	210	32	-
Chin Yang Machinery Co., Ltd.	machinery & equipment	E	-	481	481	300	-	-	-	-	-
Hankuk Iron and Steel Co., Ltd.	basic metals	E	5,357	1,750	2,850	1,100	36.7(39.5)	-	-	93	-
Union Steel Mfg. Co., Ltd.	metal products	E	3,008	1,500	2,305	600	-	-	-	-	-
Dae Sung Mining Development Co. Ltd.	mining & quarrying	E	206	460	460	460	-	-	10	61	-
Donkuk Steel Mill Co., Ltd.	basic metals	E	8,614	7,000	8,913	1,500	35.9(41.4)	-	-	164	-
Ssang Yong Cement Ind. Co., Ltd.	non-metal	E	874	1,150	1,470	320	-	-	56	15	-
Hyup Sung Agricultural Co., Ltd.	food	N	514	280	280	280	-	n.a.	n.a.	n.a.	-
Total			150,484	122,783	125,992	93,762		260,553	5,965		

KOREA

KOREA DEVELOPMENT FINANCE CORPORATION

Economic Impact of KDFC-Financed Projects /a

Partial Economic Indicators of Projects

	1968-74	1975/76	1977	1978	1979	1968-79
No. of projects /b	172	110	62	73	96	513
Total project costs (E Won mln) /c	125,548	144,793	88,797	138,831	184,075	682,044
Amount of KDFC financing (E Won mln) /c	47,467	51,789	35,729	49,031	63,694	247,710
Share of KDFC financing (%)	37.8	35.8	40.2	35.3	34.6	36.3
Incremental annual sales (Won mln) /d	318,986	271,704	126,670	255,560	298,239	1,271,159
Incremental annual value added (Won mln) /d	80,316	90,795	49,098	93,011	128,414	450,634
Increase in fixed assets (Won mln)	96,718	116,293	62,499	122,043	157,772	555,325
Additional employment (number) /d	16,120	10,129	5,257	6,919	6,156	44,581
Additional annual payroll (Won mln) /d	12,147	17,037	14,021	18,558	10,247	81,010
Incremental annual gross exports (\$'000) /d	358,000	242,277	52,230	113,687	80,437	846,631
Net annual balance of payments effect (net foreign exchange earnings and savings) (\$'000) /d	229,000	218,871	40,058	94,302	104,032	686,263
Cost per job (Won '000)	7,788	14,294	16,891	20,065	29,905	15,299
<u>Memorandum Items</u>						
Sales per additional employee (Won '000)	19,788	26,824	24,005	36,936	48,447	28,513
Value added per additional employee (Won '000)	5,541	8,964	9,340	13,443	20,860	10,108
Fixed assets per additional employee (Won '000)	6,000	11,481	11,889	17,639	25,629	12,457
Fixed assets per additional employee (US\$) /e	16,395	23,672	24,513	36,369	52,843	25,685
Annual payroll per additional employee (Won '000)	754	1,682	2,667	2,682	3,127	1,817
Ratio of sales to fixed assets	3.30	2.34	2.03	2.09	1.89	2.29
Ratio of value added to fixed assets	0.92	0.78	0.79	0.76	0.81	0.81
Ratio of value added to sales	0.28	0.33	0.39	0.36	0.43	0.35
Export share of sales (%) /e	41.1	43.2	20.0	21.6	13.1	32.3
Payroll share of value added (%)	13.6	18.8	28.6	20.0	15.0	18.0

/a Based on projections made in project appraisal reports; loans to KDFC Employees Fraternity in 1973, 1974, 1976 and 1978, and equity investment and debenture financing are excluded. This table covers all KDFC and RCB projects, KDLC is treated as one project for each of 1976 and 1978 respectively.

/b Net of projects subsequently withdrawn.

/c Won equivalent at varying exchange rates.

/d The magnitude of all these items is based on estimates at full capacity operations.

/e Applying average exchange rates for 1968-74; for other years US\$1.00 = W 485.00.

KOREA

KOREA DEVELOPMENT FINANCE CORPORATION

Economic Impact of KDPC-Financed Projects by Institution /a

Partial Economic Indicators of Projects

	1976			1977			1978			1979		
	KDPC	KDLC	RCB	KDPC	KDLC	RCB	KDPC	KDLC	RCB	KDPC	KDLC	RCB
Number of projects /b	46	28	18	50	-	12	53	36	19	89	-	7
Total project costs (Won million) /c	85,248	12,956	5,713	84,043	-	4,754	120,062	13,374	5,395	181,562	-	2,513
Amount of KDPC financing (Won million) /c	25,393	2,436	2,466	33,581	-	1,864	40,940	4,850	3,241	62,866	-	828
Share of KDPC financing (%)	29.8	18.8	43.2	40.0	-	39.2	34.1	36.3	60.0	34.6	-	27.6
Total fixed assets and permanent working capital (Won million)	78,604	11,229	5,592	76,311	-	4,615	114,532	12,705	5,350	175,374	-	2,538
Incremental annual sales (Won million) /d	148,946	36,601	12,620	108,705	-	17,965	213,723	19,953	21,884	294,590	-	3,649
Incremental annual value added (Won million) /d	47,221	10,024	5,085	42,282	-	6,816	79,289	5,806	7,916	126,493	-	1,921
Increase in fixed assets (Won million)	65,328	9,286	4,899	58,391	-	4,108	104,999	12,157	4,887	155,554	-	2,218
Additional employment (number) /d	4,312	1,798	1,398	4,593	-	664	5,228	802	889	5,925	-	231
Of which:												
(i) Skilled	1,216	468	200	1,209	-	156	2,728	311	241	2,537	-	36
(ii) Unskilled	2,483	1,266	1,105	2,802	-	459	2,061	352	572	2,422	-	187
(iii) Administrative	208	15	37	306	-	31	82	57	46	458	-	6
(iv) Engineers	405	49	56	276	-	18	357	82	30	508	-	2
Additional annual payroll (Won million) /d	8,986	4,412	1,462	11,991	-	2,030	15,976	1,148	1,434	18,940	-	307
Incremental annual gross exports (\$'000) /d	170,983	23,124	18,855	40,692	-	11,538	98,182	973	14,532	78,238	-	2,199
Incremental imports (\$'000) /d												
(i) Fixed assets	83,000	12,049	5,084	65,226	-	3,913	102,175	-	4,241	95,366	-	-
(ii) For raw materials	57,447	12,905	5,091	34,321	-	1,721	91,980	526	1,602	100,715	-	-
Net annual balance of payments effect (net foreign exchange earnings and savings) (\$'000) /d	143,596	11,718	14,810	31,564	-	8,494	82,958	335	11,009	102,589	-	1,443
Memorandum Items												
Sales per additional employee (Won '000)	34,542	20,357	9,027	23,668	-	27,056	40,880	24,879	24,616	49,719	-	15,796
Value added per additional employee (Won '000)	10,951	5,575	3,637	9,206	-	10,265	15,166	7,239	8,904	21,349	-	8,316
Fixed assets per additional employee (Won '000)	15,150	5,165	3,504	12,713	-	6,187	20,084	15,158	5,497	26,253	-	9,601
Fixed assets per additional employee (US\$)	31,237	10,649	7,225	26,212	-	12,757	41,410	31,253	11,334	54,129	-	19,796
Fixed assets and permanent working capital per additional employee (US\$)	37,586	12,877	8,247	34,257	-	14,331	45,170	32,655	12,408	61,028	-	10,987
Annual payroll per additional employee (Won '000)	2,084	2,454	1,046	2,611	-	3,057	3,056	1,431	1,613	3,196	-	1,329
Ratio of sales to fixed assets	2.28	3.94	2.58	1.86	-	4.37	2.04	1.64	4.48	1.89	-	1.64
Ratio of value added to fixed assets	0.72	1.08	1.04	0.72	-	1.66	0.76	0.48	1.62	0.81	-	0.86
Ratio of value added to sales	0.32	0.27	0.40	0.39	-	0.38	0.37	0.29	0.36	0.43	-	0.52
Export share of sales (%)	55.7	30.6	72.5	18.2	-	31.1	22.3	2.4	32.2	12.9	-	55.5
Payroll share of value added (%)	19.0	44.0	28.8	28.4	-	29.8	20.1	19.8	18.1	14.9	-	15.9

/a Based on projections made in project appraisal reports; loans to KDPC's Employees Fraternity Association in 1973, 1974 and 1976 and equity investment and debenture financing are excluded.

/b Net of projects subsequently withdrawn.

/c Won equivalent at US\$1.0 = W 485.0.

/d The magnitude of all these items is based on estimates of full capacity operations.

KOREA

KOREA DEVELOPMENT FINANCE CORPORATION

Degree of Export Orientation of KDFC Projects
(Approved in 1974-December 31, 1979)

Categories /a	1975 /b			1976 /d			1977			1978 /e			1979 /e			Cumulative total		
	Loan amount			Loan amount			Loan amount			Loan amount			Loan amount			Loan amount		
	No. /c	\$	W	No. /c	\$	W	No. /c	\$	W	No. /c	\$	W	No. /c	\$	W	No. /c	\$	W
No exports (less than 5%)	27	25,338	455	17	12,647	445	21	23,213	540	42	63,579	2,441	60	61,654	2,070	167	186,431	5,951
Some exports (5%-25%)	4	3,866	-	6	4,623	-	4	9,960	70	3	747	-	9	25,100	600	26	44,296	670
Export-oriented (25%-50%)	4	3,505	-	6	6,277	40	9	9,240	350	9	5,656	340	8	9,350	100	36	34,028	830
Heavily export-oriented (over 50%)	12	10,200	180	38	37,480	260	28	27,812	710	19	24,966	200	22	28,625	430	119	129,083	1,780
<u>Total</u>	<u>47</u>	<u>42,891</u>	<u>635</u>	<u>67</u>	<u>61,027</u>	<u>745</u>	<u>62</u>	<u>70,225</u>	<u>1,670</u>	<u>73</u>	<u>94,948</u>	<u>2,981</u>	<u>99</u>	<u>124,729</u>	<u>3,200</u>	<u>348</u>	<u>393,838</u>	<u>9,231</u>

/a % of export sales out of total incremental sales.

/b The increased proportion of "no export" projects in 1975 was due to the fact that substantial amounts of financing approved during the year were for machinery and related industries and for agricultural projects in accordance with KDFC's recent developmental strategy. (Of the US\$25,320,000 and W 322 million approved for "no export" projects in 1975, US\$16,833,000 were for machinery and related industries, and US\$80,000 and W 300 million were for agricultural projects.)

/c Number of projects.

/d Loans to KDFC Employees' Fraternity Association are included amounting to 2 loans for W 295 million in 1976 and 2 loans for W 541 million in 1978.

KOREA

KOREA DEVELOPMENT FINANCE CORPORATION

Terms and Conditions of Long-Term Borrowings as of Dec. 31, 1979
(In W million)

	Loan amount		Outstanding /a		Date of loan agreement	Repay-ment schedule	Borrowing rate (%)	Onlending rate (%)	Maximum du-ration for subborrower (years)	Limit on sub-loan	Free limit (\$'000)	Procure-ment tied or not
	Original	Actual	Won in Million	US\$ in thousand								
Foreign Currency												
--- (US\$'000) ---												
USAID	5,000	2,892		376	01/01/68	1972-84	6.0	10	15	n.a.	100	tied
IBRD												
1st loan	5,000	4,950		146	01/01/68	1970-80	6.5-7.0	10	15	n.a.	100	not
2nd loan	20,000	19,726		849	06/26/69	1971-80	6.5	10	15	n.a.	300	not
3rd loan	30,000	29,125		10,955	05/17/71	1973-86	7.25	10	15	n.a.	500	not
4th loan	40,000	39,608		23,646	06/13/73	1775-87	7.25	10	15	n.a.	750	not
5th loan	55,000	54,879		46,690	07/23/75	1977-88	8.5	10.75-10.2	15	n.a.	2,000	not
6th loan	70,000	70,000		66,818	06/30/77	1980-94	8.2	10.6-10.2	15	n.a.	2,500	not
7th loan	100,000	100,000		50,393	12/07/78	1982-95	7.35	9.35	15	n.a.	4,000	not
ADB												
1st loan	30,000	29,892		21,676	09/02/74	1977-89	7.5-8.75	10	15	n.a.	750	not
2nd loan	40,000	40,000		35,394	08/12/76	1980-91	9.2	11.1-10.2	15	n.a.	1,500	not
3rd loan	50,000	50,000		-	12/13/79	1983-96	7.6	9.6	15	4,000	2,000	not
Commercial												
Caterpillar loan	5,000	79		-	03/15/69	1973-79	7.0	10	5	n.a.	-	tied
IFC loan	17,800	17,800		13,348	05/25/76	1978-84	A: 10.75 B: LIBOR + 2% C: 9.95	Borrowing rate + 1.25%	-	n.a.	-	not
									-	n.a.	-	not
DFC loan	2,000	2,000		1,858	05/26/76	1978-86	10.25%	Borrowing rate + 1.25%	-	n.a.	-	not
APCO loan	20,000	20,000		20,000	09/13/77	1980-84	LIBOR + 1.75%	Borrowing rate + 1.25%	-	n.a.	-	not
DEUTB loan	30,000	30,000		30,000	08/09/78	1981-88	LIBOR + 0.875%	Borrowing rate + 1.25%	-	n.a.	-	not
IBJ loan	50,000	50,000		11,000	05/18/79	1982-89	LIBOR + 0.75%	Borrowing rate + 1.25%	-	n.a.	-	not
Domestic Currency												
--- (W million) ---												
Gov't loan	2,025	2,025	1,856		01/91/67	1977-2006	4%	-	-	-	-	-

/a Exchange rate applied US\$1.00 = W 485.00.

KOREA

KOREA DEVELOPMENT FINANCE CORPORATION

Summarized Data on Leasing Projects
Financed by KDLC from KDFC's Loan

	No. of projects	Lease contracts Amount	%
<u>A. Sectoral Distribution</u>			
Industrial Sector:			
Food and beverage	8	2,754	19.6
Textile, wearing apparel and leather	14	2,416	17.2
Chemical, petroleum, coal rubber and plastic products	12	1,946	13.9
Metal products, machinery & equipment:			
Metal products	8	1,547	11.0
Machinery	6	1,253	8.9
Electrical & electronic equipment	3	707	5.0
Others	10	2,938	20.9
Medicare	2	489	3.5
<u>Total /a</u>	<u>63</u>	<u>14,050</u>	<u>100.0</u>
<u>B. Geographical Distribution</u>			
Province:			
Seoul Area	21	3,823	27.2
Gyeonggi	20	4,024	28.6
Jeon Nam	4	1,890	13.4
Gyeong Bug	5	1,475	10.6
Gyeong Nam	13	2,833	20.2
<u>Total /a</u>	<u>63</u>	<u>14,050</u>	<u>100.0</u>

/a KDFC's total subloan to KDLC from the proceeds amounts to US\$15 million, \$5 million from 1145-KO and \$10 million from 1635-KO.

KOREA

KOREA DEVELOPMENT FINANCE CORPORATION

Characteristics of Loan Approvals under the RCB Scheme of Cooperation
(in US\$'000)

	<u>1975</u>		<u>1976</u>		<u>1977</u>		<u>1978</u>		<u>1979</u>		<u>Total</u>		
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	
<u>Characteristics of Loans</u>													
<u>Purpose</u>													
New project	-	-	6	1,611	4	1,513	3	367	-	-	13	3,491	24.9
Expansion	1	340	11	3,133	6	1,618	14	4,089	7	1,708	39	10,888	75.7
Total	1	340	17	4,744	10	3,131	17	4,456	7	1,708	52	14,379	100.0
<u>Size (in US\$'000)</u>													
Below 200	-	-	6	972	3	538	9	1,101	4	540	22	3,151	21.9
201-300	-	-	4	999	3	802	3	772	1	263	11	2,836	19.7
301-400	1	340	4	1,354	1	332	1	342	-	-	7	2,368	16.5
401-500	-	-	2	894	3	1,459	3	1,441	2	905	10	4,699	32.7
Above 500	-	-	1	525	-	-	1	800	-	-	2	1,325	9.2
Total	1	340	17	4,744	10	3,131	17	4,456	7	1,708	52	14,379	100.0
<u>Sectoral Distribution</u>													
Dairy products	-	-	-	-	2	751	3	1,049	2	265	7	2,065	14.3
Fishery	-	-	-	-	-	-	1	188	-	-	1	188	1.3
Foodstuffs	-	-	-	-	1	150	1	135	-	-	2	285	2.0
Textile & wearing apparel	1	340	10	3,145	1	295	5	1,136	2	718	19	5,634	39.2
Wood & wood products	-	-	-	-	-	-	1	67	-	-	1	67	0.5
Paper & printing	-	-	-	-	-	-	-	-	1	175	1	175	1.2
Metal products	-	-	4	940	2	940	3	801	-	-	9	2,681	18.6
Chemical products	-	-	3	659	1	260	-	-	-	-	4	919	6.4
Electronic products	-	-	-	-	1	347	-	-	1	450	2	797	5.5
Non-metallic mineral products	-	-	-	-	1	247	2	580	-	-	3	827	5.8
Construction	-	-	-	-	-	-	-	-	1	100	1	100	0.7
Transportation	-	-	-	-	1	141	1	500	-	-	2	641	4.4
Total	1	340	17	4,744	10	3,131	17	4,456	7	1,708	52	14,379	100.0
<u>Characteristics of Project Sponsoring Firms</u>													
<u>Asset Size (in W million)</u>													
Below 200	1	340	3	867	1	294	4	799	-	-	9	2,300	16.0
201-500	-	-	6	1,575	4	1,089	5	596	3	805	18	4,065	28.2
501-1,000	-	-	3	929	3	1,106	4	1,876	2	348	12	4,259	29.6
1,001-1,500	-	-	3	843	2	642	-	-	1	455	6	1,940	13.5
Above 1,500	-	-	2	530	-	-	4	1,185	1	100	7	1,815	12.8
Total	1	340	17	4,744	10	3,131	17	4,456	7	1,708	52	14,379	100.0
<u>Sales Volume (in W million)</u>													
Below 200	-	-	2	630	3	863	6	1,039	2	630	13	3,162	22.0
201-500	-	-	7	1,617	1	100	2	349	2	260	12	2,326	16.2
501-1,000	1	340	-	-	3	1,279	4	1,448	1	263	9	3,330	23.2
Above 1,000	-	-	8	2,497	3	889	5	1,620	2	555	18	5,561	38.8
Total	1	340	17	4,744	10	3,131	17	4,456	7	1,708	52	14,379	100.0
<u>Number of Employees</u>													
Below 200	1	340	11	2,831	9	2,871	14	3,371	6	1,608	41	11,021	76.6
201-500	-	-	4	1,470	1	260	1	500	-	-	6	2,230	15.5
Above 500	-	-	2	443	-	-	2	585	1	100	5	1,128	7.9
Total	1	340	17	4,744	10	3,131	17	4,456	7	1,708	52	14,379	100.0

KOREA

KOREA DEVELOPMENT FINANCE CORPORATION

/a
Partial Economic Indicators of Projects
Financed under KDFC's Scheme of Cooperation
with Regional Commercial Bank

	<u>RCBs</u>	<u>Total</u>
Number of projects	52	513
Total project cost (W million)	15,862	682,044
Amount of KDFC financing (W million) /b	6,973	247,710
Share of KDFC financing (%)	44	36
Incremental annual sales (W million)	47,895	1,271,159
Incremental annual value added (W million)	23,874	450,634
Increase in fixed assets (W million)	12,916	555,325
Additional employment (number)	2,774	44,581
Incremental annual gross exports (US\$'000)	34,378	846,631
Net foreign exchange earnings & savings (US\$'000)	26,102	686,263

Memorandum Items

Sales per employee (W '000)	17,266	28,513
Value added per employee (W '000)	8,606	10,108
Fixed assets per employee (W '000)	4,656	12,457
Total project cost per employee (W '000)	5,718	15,299
Ratio of sales to fixed assets	3.7	2.29
Ratio of value added to fixed assets	1.8	0.81
Ratio of value added to sales	0.5	0.35
Export share of sales (%)	35.0	32.3

/a Based on full capacity operation as project in appraisal reports.

/b Exchange rate applied: W 485 = US\$1.00.

KOREA

KOREA DEVELOPMENT FINANCE CORPORATION

Audited Balance Sheet 1975-79
(in W million)

	1975	1976	1977	1978	1979
<u>Assets</u>					
<u>Current Assets</u>					
Cash in banks & demand deposits	21	18	23	207	53
Time deposits maturing within one year	606	1,038	1,325	2,318	588
Restricted cash /a	-	2,475	116	1,560	3,180
Marketable securities at cost	2,750	3,448	3,421	5,911	7,478
Current portion of loans & debentures	6,239	8,007	11,327	15,114	22,122
Accrued interest	1,317	2,407	3,847	5,609	6,214
Other current assets	49	77	175	35	20
<u>Total Current Assets</u>	<u>10,982</u>	<u>17,470</u>	<u>20,234</u>	<u>30,754</u>	<u>39,655</u>
<u>Long-Term Assets</u>					
Domestic currency loans	3,407	3,073	2,559	4,764	6,812
Foreign currency loans					
IBRD loans	35,257	48,768	58,899	77,981	106,262
ADB loans	6,391	11,956	23,630	36,376	33,589
AID loans	906	703	479	310	346
Caterpillar loans	17	9	-	-	-
IFC loans	-	8,648	8,779	8,175	6,547
DEG loans	-	1,070	1,202	1,387	1,355
APCO loans	-	-	-	9,700	9,700
DEUTB loans	-	-	-	3,880	14,550
IBJ loans	-	-	-	-	5,335
Subtotal	<u>42,571</u>	<u>71,154</u>	<u>92,989</u>	<u>137,809</u>	<u>177,684</u>
Debentures	405	803	933	488	765
Equity investments	2,394	3,333	4,186	6,176	7,657
<u>Total Long-Term Portfolio</u>	<u>48,777</u>	<u>78,363</u>	<u>100,667</u>	<u>149,237</u>	<u>192,918</u>
Less: Allowances for losses	(830)	(1,131)	(1,462)	(2,160)	(2,775)
Current portion	(6,239)	(8,007)	(11,327)	(15,114)	(22,122)
Net total long-term portfolio	41,708	69,225	87,878	131,963	168,021
Property & equipment	245	1,075	1,867	1,922	1,945
Less: Accumulated depreciation	(46)	(39)	(130)	(305)	(458)
Other fixed asset	145	104	36	32	42
<u>Total Long-Term Assets</u>	<u>42,052</u>	<u>70,365</u>	<u>89,651</u>	<u>133,611</u>	<u>169,550</u>
<u>Total Assets</u>	<u>53,034</u>	<u>87,835</u>	<u>109,885</u>	<u>164,365</u>	<u>209,205</u>

/a Restricted cash represents foreign currencies the Company has borrowed and received and is temporarily holding in banks on behalf of several borrowers.

ANNEX B

Table 21

Page 2 of 2

Audited Balance Sheet 1975-79
(in W million)

	1975	1976	1977	1978	1979
Liabilities and Equity					
Current Liabilities					
Accrued interest & commitment fees	829	1,698	2,675	3,851	4,178
Deferred income	148	219	321	269	337
Income tax payable	255	304	498	897	1,038
Borrower's fund held on deposits /a	-	2,474	115	1,560	3,180
Current maturity of long-term debt	5,008	6,806	10,225	13,017	16,472
Other current liabilities	40	77	303	605	460
Subtotal	<u>6,280</u>	<u>11,578</u>	<u>14,137</u>	<u>20,199</u>	<u>25,665</u>
Employee's severance liabilities	165	244	287	365	521
Long-Term Liabilities					
Domestic currency borrowings (Govt loan)	2,025	2,025	1,992	1,924	1,856
Foreign currency borrowings:					
IBRD loans	35,076	48,526	58,296	77,291	106,064
ADB loans	6,391	11,956	23,625	35,376	33,589
AID loans	1,090	996	895	789	676
Caterpillar loans	22	17	11	5	-
IFC loans	-	8,648	8,779	8,174	6,547
DEG loans	-	1,070	1,202	1,387	1,355
APCO loans	-	-	-	9,700	9,700
DEUTB loans	-	-	-	3,880	14,550
IBJ loan	-	-	-	-	5,335
Subtotal	<u>42,579</u>	<u>71,213</u>	<u>92,808</u>	<u>137,602</u>	<u>177,816</u>
Total Long-Term Liabilities	<u>44,604</u>	<u>73,238</u>	<u>94,800</u>	<u>139,526</u>	<u>179,672</u>
Less: Current maturity of long-term debt	(5,008)	(6,806)	(10,225)	(13,017)	(16,472)
Net total long-term liabilities	39,596	66,432	84,575	126,509	163,200
Stockholders' Equity					
Share capital	3,300	5,000	5,000	10,000	10,000
Legal reserve	700	1,070	1,770	2,500	3,300
Voluntary reserve	1,700	1,900	2,000	2,300	2,500
Business rationalization reserve	-	-	-	-	200
Unappropriated	1,293	1,611	2,116	2,492	3,819
Total Stockholders' Equity	<u>6,993</u>	<u>9,581</u>	<u>10,886</u>	<u>17,292</u>	<u>19,819</u>
Total Liabilities & Equity	<u>53,034</u>	<u>87,835</u>	<u>109,885</u>	<u>164,365</u>	<u>209,205</u>
Contingent liabilities:					
Payable guarantee	454	454	454	403	200
L/C issued and outstanding	4,105	7,518	5,312	13,251	15,836
Subtotal	<u>4,559</u>	<u>7,972</u>	<u>5,766</u>	<u>13,654</u>	<u>16,036</u>
Current ratio	1.7	1.5	1.4	1.5	1.5
Long-term debt/equity ratio	6.44	7.69	8.75	8.09	9.08
Reserves & provisions as % of portfolio	9.3	7.3	7.3	6.3	6.5

/a Borrower's funds held on deposits represent foreign currencies the company has borrowed and received and are temporarily holding in banks on behalf of several borrowers.

ANNEX B

Table 22

KOREA

KOREA DEVELOPMENT FINANCE CORPORATION

Audited Income Statements, 1975-79
(in W million)

	<u>Year ended December 31,</u>				
	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>
<u>Income</u>					
<u>Interest Income from</u>					
Domestic currency loans	548	497	488	612	1,132
Foreign currency loans	4,022	5,699	8,932	13,117	17,353
Subtotal	<u>4,570</u>	<u>6,196</u>	<u>9,420</u>	<u>13,729</u>	<u>18,485</u>
Commitment income	109	299	336	511	690
Debenture income	53	96	166	121	159
Dividend income	267	394	467	703	730
Income on commercial paper	268	447	602	751	1,738
Interest on deposits	204	208	387	514	513
Total Income	<u>5,471</u>	<u>7,640</u>	<u>11,379</u>	<u>16,539</u>	<u>22,315</u>
<u>Expenses</u>					
<u>Interest and Charges on Borrowings</u>					
Domestic currency borrowings	31	81	81	79	76
Foreign currency borrowings	2,840	4,186	6,859	10,358	14,028
Commitment charges	104	287	251	359	609
Subtotal	<u>3,025</u>	<u>4,554</u>	<u>7,191</u>	<u>10,796</u>	<u>14,713</u>
Salaries and other personnel expenses	325	452	581	755	975
Administrative and general expenses	314	367	431	484	590
Depreciation	12	8	110	180	159
Provision for losses	202	301	331	693	615
Write-offs	39	-	-	-	-
Other expenses	42	25	11	14	69
Total Expenses	<u>3,959</u>	<u>5,707</u>	<u>8,655</u>	<u>12,937</u>	<u>17,121</u>
Net earnings before tax	1,512	1,933	2,724	3,602	5,194
Provisions for income tax	296	385	663	1,196	1,467
Net income	1,216	1,548	2,056	2,406	3,727
Retained earnings brought forward	77	63	60	85	92
Total	<u>1,293</u>	<u>1,611</u>	<u>2,116</u>	<u>2,492</u>	<u>3,819</u>
<u>Appropriation</u>					
Cash dividend	330	751	1,000	1,200	2,300
Stock dividend	330	-	-	-	-
Legal reserve	370	700	730	800	300
Business rationalization reserve	-	-	-	200	700
Voluntary reserve	200	100	300	200	400
Unappropriated	63	60	85	92	119
Total	<u>1,293</u>	<u>1,611</u>	<u>2,116</u>	<u>2,492</u>	<u>3,819</u>

KOREA

KOREA DEVELOPMENT FINANCE CORPORATION

Summarized Cash Flow Statements, 1975-79
(in W million)

	1975	1976	1977	1978	1979
<u>Sources</u>					
<u>Operations</u>					
Internal cash generation	1,492	1,959	3,397	4,666	4,666
Increase in paid-in share capital	-	1,370/a	-	5,000	-
Drawdown on foreign currency borrowings	11,304	33,637	28,688	55,699	55,398
Subtotal	12,796	36,966	31,292	64,096	60,064
<u>Collections</u>					
Domestic currency loans	808	1,067	1,489	967	1,444
Debentures	98	42	131	415	183
Disposition of equity investments	148	122	-	76	69
Foreign currency loans	2,904	4,790	6,360	9,016	11,371
Subtotal	3,958	6,021	7,980	10,474	13,067
<u>Others</u>					
Increase in collections due to foreign exchange rate fluctuations	828	276	677	1,945	6,046
Disposition of property & equipment	12	58	24	5	12
Decrease in other fixed assets	18	44	81	9	-
Increase in current liabilities	540	3,500	(861)	3,270	2,011
Subtotal	1,398	3,878	(79)	5,229	8,069
<u>Total Sources</u>	18,152	46,865	39,193	79,799	81,200
<u>Uses</u>					
<u>Disbursements</u>					
Domestic currency loans	523	733	975	3,172	3,492
Debentures	250	440	480	-	460
Equity investments	764	1,062	633	2,036	1,550
Foreign currency loans	11,486	31,490	20,712	42,478	56,231
Subtotal	13,023	33,725	22,800	47,686	61,733
<u>Repayment</u>					
Domestic currency borrowing	-	-	33	68	68
Foreign currency borrowing	3,929	5,003	7,093	10,905	15,184
Subtotal	3,929	5,003	7,126	10,973	15,252
<u>Others</u>					
Increase in disbursements due to foreign exchange rate fluctuations	(232)	2,158	8,161	13,303	1,061
Acquisition of property & equipment	34	888	816	60	35
Increase in other fixed assets	2	3	13	5	10
Increase in current assets	1,066	4,720	(556)	6,733	1,893
Decrease in depreciation	7	14	19	4	7
Employees' severance pay	23	24	63	35	9
Payment of dividend	300	330	751	1,000	1,200
Subtotal	1,200	8,137	9,267	21,140	4,215
<u>Total Uses</u>	18,152	46,865	39,193	79,799	81,200

/a Excluding 330 million won of stock dividend.

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KOREA DEVELOPMENT FINANCE CORPORATION

Ratio Analysis

Ratios	1975	1976	1977	1978	1979
1. Income from loans as % of average loan portfolio	11.00	10.80	11.50	12.10	11.70
2. Cost of term debt as % of average term debt	7.40	7.70	8.60	9.20	9.20
3. Interest spread	3.60	3.10	2.90	2.90	2.50
4. Income from all portfolio as % of all average portfolio	11.20	11.00	11.60	12.20	11.70
5. Financial expenses as % of average term debt and equity	6.40	6.80	7.60	8.20	8.30
6. Earning spread	4.80	4.20	4.00	4.00	3.40
7. G&A expenses as % of average term debt and equity	1.40	1.20	1.20	1.10	1.00
8. Income from foreign currency loans as % of average foreign currency loan portfolio	10.60	10.50	11.30	11.90	11.40
9. Cost of foreign currency term debt as % of average foreign currency term debt	7.60	7.90	8.70	9.30	9.30
10. Interest spread on foreign currency loans	3.00	2.60	2.60	2.60	2.10
11. Income from all domestic currency portfolio as % of all average domestic currency portfolio	14.60	14.70	15.10	16.00	15.20
12. Domestic financial expenses as % of average domestic term debt and equity	1.00	0.80	0.70	0.60	0.40
13. Earning spread on domestic portfolio	13.60	13.90	14.40	15.40	14.80
14. Provision as % of loan and investment	1.70	1.40	1.50	1.40	1.40
15. Return on total assets (before income tax)	2.90	2.20	2.50	2.20	2.50
16. Earnings as % of per share (average outstanding)	38.60	37.30	41.10	40.10	37.30
17. Cash dividend as % of per share	10.00	20.00	20.00	20.00	23.00
18. Stock dividend as % of per share	10.00	-	-	-	-
19. Payout ratio (cash dividend/net income)	27.10	48.50	48.60	49.90	61.70
20. Interest coverage ratio	1.50	1.43	1.39	1.35	1.36
21. Debt service coverage ratio	1.31	1.32	1.29	1.22	1.28
22. G&A expenses as % of average total assets	1.30	1.20	1.10	1.00	0.90
23. Return on total assets (after income tax)	2.30	1.80	1.90	1.50	1.80

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KOREA DEVELOPMENT FINANCE CORPORATION

Status of Loan Portfolio as of December 31, 1979 /a
(W million)

	No. of loans	No. of companies	<u>Principal outstanding</u>			<u>Arrears</u>		
			Amount	%		Interest	Principal	Total
A. <u>Loans in Grace Period</u>								
Not in arrears	222	149	87,297	47.1	-	-	-	-
In arrears for less than 3 months	-	-	-	-	-	-	-	-
In arrears for more than 3 months	1	1	428	0.2	22.9	-	-	22.9
B. <u>Loans in Repayment Stage</u>								
Repaying regularly	224	122	97,415	52.6	-	-	-	-
In arrears for less than 3 months	1	1	121	0.1	5.8	36.8	-	42.6
In arrears for more than 3 months	-	-	-	-	-	-	-	-
C. <u>Loans Being Foreclosed</u>	-	-	-	-	-	-	-	-
D. <u>Total Portfolio</u>	<u>448</u>	<u>273</u>	<u>185,261</u>	<u>100.0</u>	<u>28.7</u>	<u>36.8</u>	<u>65.5</u>	

II. Age Structure of Loans in Arrears as of Dec. 31, 1979

	<u>No. of loans</u>	<u>Outstanding balance affected</u>	<u>Arrears</u>		
			<u>Interest</u>	<u>Principal</u>	<u>Total</u>
Less than 3 months	1	121	5.8	36.8	42.6
3 to 6 months	1	428	22.9	-	22.9
6 to 12 months	-	-	-	-	-
Over 12 months	-	-	-	-	-
Over 2 years	-	-	-	-	-

/a Loan and debenture portfolio.

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KOREA DEVELOPMENT FINANCE CORPORATION

Analysis of Loans in Arrears, 1974 - Dec. 31, 1979
(in W million)

	1974	1975	1976	1977	1978	1979
<u>Loans in Arrears</u>						
Total number of loans in portfolio	150	213	300	370	454	581
Number of loans in arrears under 3 months	1	1	1	1	2	1
As % of total loan portfolio	0.7	0.5	0.3	0.3	0.4	0.2
Number of loans in arrears over 3 months /a	2	-	-	-	-	-
As % of total loan portfolio	1.3	-	-	-	-	0.0
Total number of loans in arrears	3	1	1	1	2	1
As % of total loan portfolio	2.0	0.5	0.3	0.3	0.4	0.2
<u>Principal Affected by Arrears</u>						
Total principal outstanding	38,954	46,383	75,029	96,481	143,061	185,261
Principal affected by arrears under 3 months	323	407	382	384	228	121
As % of principal outstanding	0.8	0.9	0.5	0.4	0.2	0.1
Principal affected by arrears for 3 to 12 months /a	591	-	-	-	-	421
As % of principal outstanding	1.5	-	-	-	-	0.2
Principal affected by arrears over 12 months /a	-	-	-	-	-	-
As % of principal outstanding	-	-	-	-	-	-
Total principal affected by arrears	914	407	382	384	228	542
As % of total principal outstanding	2.3	0.9	0.5	0.4	0.2	0.3
<u>Actual Amounts in Arrears</u>						
Arrears under 3 months	34	-	37	68	58	30
As % of principal outstanding	0.09	-	0.05	0.07	0.04	0.02
Arrears between 3 - 12 months /a	38	-	-	-	-	-
As % of principal outstanding	0.10	-	-	-	-	-
Arrears over 12 months /a	-	-	-	-	-	-
As % of principal outstanding	-	-	-	-	-	-
Total arrears	72	-	37	68	58	30
As % of total principal outstanding	0.19	-	0.05	0.09	0.04	0.02

/a Including accounts being foreclosed.

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Collection Performance, 1974-Dec 31, 1979 /a
(in W million)

	Arrears at beginning of year	Amounts fall- ing due during the year	Collections						Arrears at end of the year	
			Against arrears		Against new dues		Total			
			Amount	%	Amount	%	Amount	%		
<hr/>										
<u>1974</u>										
Principal	24	3,577	24	64.9	3,505	60.7	3,529	60.8	72	
Interest	13	2,302	13	35.1	2,267	39.3	2,280	39.2	35	
<u>Total</u>	<u>37</u>	<u>5,879</u>	<u>37</u>	<u>100.0</u>	<u>5,772</u>	<u>100.0</u>	<u>5,809</u>	<u>100.0</u>	<u>107</u>	
<u>1975</u>										
Principal	72	4,566	72	67.3	4,566	56.5	4,638	56.7	-	
Interest	35	3,537	35	32.7	3,513	43.5	3,548	43.3	24	
<u>Total</u>	<u>107</u>	<u>8,103</u>	<u>107</u>	<u>100.0</u>	<u>8,079</u>	<u>100.0</u>	<u>8,186</u>	<u>100.0</u>	<u>24</u>	
<u>1976</u>										
Principal	-	6,212	-	-	6,175	58.6	6,175	58.5	37	
Interest	24	4,385	24	100.0	4,363	41.4	4,385	41.5	23	
<u>Total</u>	<u>24</u>	<u>10,597</u>	<u>24</u>	<u>100.0</u>	<u>10,538</u>	<u>100.0</u>	<u>10,561</u>	<u>100.0</u>	<u>60</u>	
<u>1977</u>										
Principal	37	8,688	37	61.7	8,620	59.5	8,657	59.5	68	
Interest	23	5,892	23	38.3	5,871	40.5	5,893	40.5	22	
<u>Total</u>	<u>60</u>	<u>14,580</u>	<u>60</u>	<u>100.0</u>	<u>14,491</u>	<u>100.0</u>	<u>14,550</u>	<u>100.0</u>	<u>90</u>	
<u>1978</u>										
Principal	68	12,333	68	75.6	12,275	49.3	12,342	49.4	58	
Interest	22	12,654	22	24.4	12,608	50.7	12,630	50.6	46	
<u>Total</u>	<u>90</u>	<u>24,987</u>	<u>90</u>	<u>100.0</u>	<u>24,883</u>	<u>100.0</u>	<u>24,973</u>	<u>100.0</u>	<u>104</u>	
<u>1979</u>										
Principal	58	19,023	58	55.8	18,986	50.9	19,044	50.9	37	
Interest	46	18,327	46	44.2	18,298	49.1	18,344	49.1	29	
<u>Total</u>	<u>104</u>	<u>37,350</u>	<u>104</u>	<u>100.0</u>	<u>37,284</u>	<u>100.0</u>	<u>37,388</u>	<u>100.0</u>	<u>66</u>	

/a Loan and debenture portfolio.

KOREAKOREA DEVELOPMENT FINANCE CORPORATIONStatement of Resources

	As of Dec 31, 1978	As of Dec 31, 1979
	(W thousand)	(W thousand)
<u>Local Currency Resources</u>		
Share capital	10,000,000	10,000,000
Reserves and retained earnings /a	6,091,945	7,819,341
Net stockholders' equity	16,091,945	17,819,341
Government subordinated loan	1,923,750	1,856,250
Add-back: Noncash charges (depreciation, provisions, etc.)	2,830,691	3,754,136
<u>Total Local Currency Resources</u>	<u>20,846,386</u>	<u>23,429,727</u>
Less: Local currency loans outstanding	4,764,196	6,811,743
Bonds and debentures outstanding	488,000	765,000
Equity investments	6,176,012	7,656,862
Fixed assets (at cost)	1,953,938	1,987,379
Subtotal	<u>13,382,146</u>	<u>17,220,984</u>
Equals: Available for disbursement	7,464,240	6,208,743
Less: Undisbursed commitments	725,000	1,072,500
Equals: Available for commitment	6,739,240	5,136,243
Less: Uncommitted approvals	480,000	250,000
Local currency resources available for approval	6,259,240	4,886,243
<u>Foreign Currency Resources /b</u>	(\$)	(\$)
IBRD loans	318,289,019	318,289,019
ADB loans	69,892,070	119,892,070
IFC loan	17,800,000	17,800,000
DEG loan	2,000,000	2,000,000
AID and Caterpillar loans	2,971,025	2,971,025
APCO loan	20,000,000	20,000,000
DEUTB loan	30,000,000	30,000,000
IBJ loan	-	50,000,000
<u>Total Foreign Currency Resources</u>	<u>460,952,114</u>	<u>560,952,114</u>
	(= W 223.6 billion)	(= W 272.1 billion)
Less: Total loans disbursed	302,388,804	416,562,880
Equals: Resources available for disbursement	158,563,310	144,389,234
Less: Undisbursed commitments	51,790,392	62,898,017
Equals: Resources available for commitment	106,772,918	81,491,217
Less: Uncommitted approvals	25,015,000	17,895,000
Foreign currency resources available for approval	81,757,918	63,596,217
<u>Total Resources</u>	(W thousand equivalent) /c	
Total resources	244,408,161	295,491,502
Available for disbursement	84,367,445	76,237,521
Available for commitment	58,524,105	44,659,483
Available for approval	45,911,830	35,730,408

/a After deducting 1977 cash dividend (W 1 billion) and 1979 cash dividend (W 2 billion)

/b Net of cancellations.

/c Exchange rate applied: US\$1 = W 485.00

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KOREA DEVELOPMENT FINANCE CORPORATION

Projected Operations

	(Actual) 1979	1980	1981	1982	1983	1984	Total (1980-84)
<u>Approvals</u>							
Domestic currency (W million)							
Loans	3,200	32,000	44,000	76,000	112,000	152,000	416,000
Equity investment	1,468	4,000	5,500	9,500	14,000	19,000	52,000
Debenture	810	4,000	5,500	9,500	14,000	19,000	52,000
Subtotal	<u>5,478</u>	<u>40,000</u>	<u>55,000</u>	<u>95,000</u>	<u>140,000</u>	<u>190,000</u>	<u>520,000</u>
Foreign currency loans (\$ thousand)	122,962	140,000	160,000	170,000	190,000	202,000	862,000
Total (E\$ thousand)	184,257	208,611	254,340	332,950	430,137	527,900	1,753,938
(Total loans - E\$ thousand)	(129,560)	(104,889)	(235,472)	(300,360)	(382,110)	(462,720)	(1,575,551)
<u>Commitments</u>							
Domestic currency (W million)							
Loans	3,300	28,200	44,000	73,000	109,000	136,600	390,800
Equity investment	1,468	3,500	5,550	9,175	13,675	17,200	49,100
Debenture	760	3,550	5,550	9,175	13,675	17,200	49,150
Subtotal	<u>5,528</u>	<u>35,250</u>	<u>55,100</u>	<u>91,350</u>	<u>136,350</u>	<u>171,000</u>	<u>489,050</u>
Foreign currency loans (\$ thousand)	125,282	135,895	158,000	167,000	189,000	202,000	851,805
Total (E\$ thousand)	136,680	196,358	252,511	323,690	422,877	495,309	1,690,745
(Total loans - E\$ thousand)	(132,086)	(184,265)	(233,472)	(292,214)	(375,964)	(436,306)	(1,522,221)
<u>Disbursements</u>							
Domestic currency (W million)							
Loans	3,392	24,780	44,000	71,000	106,000	145,000	390,780
Equity investment	1,550	3,193	5,600	8,825	13,275	18,100	48,993
Debenture	460	3,350	5,600	8,825	13,275	18,100	49,150
Subtotal	<u>5,402</u>	<u>31,323</u>	<u>55,200</u>	<u>88,650</u>	<u>132,550</u>	<u>181,200</u>	<u>488,923</u>
Foreign currency loans (\$ thousand)	114,174	158,793	148,000	187,000	184,000	198,000	875,793
Total (E\$ thousand)	125,312	212,520	242,683	339,058	411,350	508,806	1,714,426
(Total loans - E\$ thousand)	(121,168)	(201,297)	(223,472)	(308,784)	(365,818)	(440,714)	(1,546,085)

Note: Korean won is devalued against U.S. dollar from W 485.00 to W 582.90 per dollar as of January 12, 1980. Accordingly, the new rate of W 583.00 per dollar is applied from 1980 figure for computational convenience.

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KOREA DEVELOPMENT FINANCE CORPORATION

Resources Mobilization Program
(1980-84)

	1979 (Actual)	1980	1981	1982	1983	1984	Total 1980-84
<u>Local Currency (in W million)</u>							
LTCB Debenture issue (net)	-	10,000	30,000	50,000	60,000	70,000	220,000
Share capital increase	-	35,000	-	-	15,000	-	50,000
Subtotal	-	<u>45,000</u>	<u>30,000</u>	<u>50,000</u>	<u>75,000</u>	<u>70,000</u>	<u>270,000</u>
<u>Foreign Exchange (in \$ thousand) /a</u>							
IBRD loan	-	90,000	-	-	-	-	90,000
ADB loan	50,000	-	-	-	-	-	-
Commercial loan (Bank loan)	50,000	60,000	70,000	90,000	120,000	130,000	470,000
Unidentified official loan	-	-	70,000	80,000	70,000	60,000	280,000
Subtotal	<u>100,000</u>	<u>150,000</u>	<u>140,000</u>	<u>170,000</u>	<u>190,000</u>	<u>190,000</u>	<u>840,000</u>
<u>Total (in W million)</u>	<u>48,500</u>	<u>132,450</u>	<u>111,620</u>	<u>149,110</u>	<u>185,770</u>	<u>186,770</u>	<u>759,720</u>
(in \$ thousand)	<u>100,000</u>	<u>227,187</u>	<u>191,458</u>	<u>255,793</u>	<u>318,645</u>	<u>310,069</u>	<u>1,393,122</u>

/a On loan negotiation basis.

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KOREA DEVELOPMENT FINANCE CORPORATION

Projected Balance Sheets
(in W million)

	1979 (Actual)	1980	1981	1982	1983	1984
Assets						
<u>Current Assets</u>						
Cash	53	1,476	1,337	834	1,169	541
Time deposits	588	6,000	-	-	-	-
Government securities	6,631	14,759	13,370	8,948	11,694	5,409
Marketable securities	847	13,284	12,033	8,048	10,525	4,869
Accrued interest receivables & others	9,414	8,893	12,000	15,535	20,040	25,146
Short-term loan	-	617	1,187	4,099	6,041	8,198
Discounted note	-	737	1,572	5,429	8,001	10,858
Reserves in BOK	-	206	376	1,302	1,918	2,604
Deposit to National Investment Fund	-	137	250	865	1,274	1,729
Current portion of loans & debentures	22,122	31,141	54,376	88,785	127,012	161,931
Subtotal	39,655	77,880	96,591	103,900	187,674	221,285
<u>Long-Term Assets</u>						
Domestic currency loans	6,812	29,711	68,837	121,173	179,917	247,408
Foreign currency loans	177,684	285,359	347,804	425,846	498,365	573,221
Debentures	765	3,960	8,868	15,379	24,084	34,810
Equity investment	7,657	9,850	14,450	22,275	34,550	51,650
Total Long-Term Assets	192,918	328,880	439,959	584,678	736,916	907,089
Less: Allowance for losses	(2,775)	(4,729)	(6,329)	(8,403)	(10,597)	(13,051)
Current portion	(22,122)	(31,141)	(54,376)	(88,785)	(127,012)	(161,931)
Net long-term assets	168,021	293,010	379,254	487,485	599,307	732,107
Fixed Assets (Net)	1,529	1,561	1,645	1,640	1,658	1,593
Deferred Assets	-	170	85	-	-	-
Total Assets	209,205	372,621	477,575	623,025	788,639	954,985
Liabilities & Equity						
<u>Current Liabilities</u>						
Corporation income tax payable	1,039	2,242	3,909	3,427	4,318	4,933
Accrued interest payable & others	8,154	7,390	9,657	12,606	17,055	22,619
Demand deposits	-	450	825	2,850	4,200	5,700
Savings deposits	-	1,050	1,925	6,650	9,800	13,300
Rediscounted note	-	737	1,572	5,429	8,001	10,858
Current portion of long-term debt	16,472	24,005	31,207	44,993	70,827	92,051
Subtotal	25,665	35,874	49,095	76,055	114,201	149,461
Employees' severance liabilities	521	735	1,039	1,465	1,894	2,489
<u>Long-term Liabilities</u>						
Domestic currency borrowings	1,856	1,789	1,721	1,654	1,586	1,519
LTCB debenture	-	10,000	40,000	90,000	150,000	220,000
Foreign currency borrowings	177,816	286,153	348,500	426,381	498,728	573,402
Total Long-Term Liabilities	179,672	297,942	390,221	518,035	650,314	794,921
Less: Current portion of term-debt	(16,472)	(24,005)	(31,207)	(44,993)	(70,827)	(92,051)
Net long-term liabilities	163,200	273,937	359,014	473,042	579,487	702,870
<u>Equity</u>						
Share capital	10,000	50,000	50,000	50,000	65,000	65,000
Reserves & unappropriated surplus	9,819	12,075	18,427	22,463	28,057	35,165
Subtotal	19,819	62,075	68,427	72,463	93,057	100,165
Total Liabilities & Equity	209,205	372,621	477,575	623,025	788,639	954,985
Current ratio	1.5:1	2.2:1	2.0:1	1.8:1	1.6:1	1.5:1
Debt/equity ratio	9.08:1	4.80:1	5.71:1	7.16:1	6.99:1	7.94:1

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KOREA DEVELOPMENT FINANCE CORPORATION

Projected Income Statements
(in W million)

	1979 (Actual)	1980	1981	1982	1983	1984
<u>Income</u>						
Interest and commitment						
Fees on long-term loans:						
Domestic currency loans	1,132	4,029	13,475	25,409	40,446	57,612
Foreign currency loans	17,353	29,422	37,590	47,574	57,594	69,297
Commitment fee	690	680	970	1,030	1,212	1,472
Subtotal	<u>19,175</u>	<u>34,131</u>	<u>52,035</u>	<u>74,013</u>	<u>99,252</u>	<u>128,381</u>
Interest on debentures	159	708	1,830	3,358	5,511	8,209
Dividend and other income	730	2,333	2,751	3,570	5,591	8,103
Interest from short-term loan /a	-	79	291	1,004	1,480	2,009
Income from discounts on notes /a	-	90	385	1,330	1,960	2,660
Income from deposits to National						
Investment Fund /a	-	15	53	184	271	368
Underwriting commission /a	-	-	54	90	135	180
Income from FX operation /a	-	68	157	166	187	200
Income from reserve fund	1,953	6,556	7,866	5,723	5,293	4,387
Payment guarantee fee	-	7	8	11	14	19
Rental and other income	298	221	221	221	-	-
Total Income	<u>22,315</u>	<u>44,208</u>	<u>65,651</u>	<u>89,670</u>	<u>119,694</u>	<u>154,516</u>
<u>Expenses</u>						
Interest and commitment						
Charges on borrowings:						
Government subordinated loan	76	75	70	68	65	62
LTCB debenture /b	-	600	6,000	15,600	28,800	41,400
Foreign currency borrowings	14,028	24,215	31,801	40,399	49,401	59,903
Commitment charges	609	552	710	583	966	1,186
Subtotal	<u>14,713</u>	<u>25,441</u>	<u>38,581</u>	<u>56,650</u>	<u>79,232</u>	<u>105,551</u>
Interest on deposits /b	-	130	477	1,647	2,428	3,295
Expenses from discounts on notes /b	-	76	322	1,113	1,640	2,226
Personnel expenses	974	1,677	2,251	3,049	4,146	5,743
Other G & A expenses	750	1,210	1,624	2,201	2,991	4,145
Provision for losses	671	1,954	1,600	2,074	2,194	2,454
Contribution to Korea Credit						
Guarantee Fund /b	-	62	167	321	529	791
Debenture issue expenses /b	-	350	900	1,050	1,400	1,300
Other expenses	13	85	85	85	-	-
Total Expense	<u>17,121</u>	<u>30,985</u>	<u>46,007</u>	<u>68,190</u>	<u>94,560</u>	<u>125,505</u>
Net income before tax	5,194	13,223	19,644	21,480	25,134	29,011
Provision for corporation income tax	1,467	3,967	5,893	6,444	7,540	8,703
Net income after tax	<u>3,727</u>	<u>9,256</u>	<u>13,751</u>	<u>15,036</u>	<u>17,594</u>	<u>20,308</u>

/a Income from new business.

/b Expenses incurred by new business.

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KOREA DEVELOPMENT FINANCE CORPORATION

Projected Cash Flow Statements
(in W million)

	1979 (Actual)	1980	1981	1982	1983	1984
<u>Sources</u>						
<u>Operations</u>						
Internal cash generation	4,650	11,587	15,801	17,661	20,324	23,457
Increase in share capital	-	35,000	-	-	15,000	-
Issuance of LTCB debenture	-	10,000	30,000	50,000	70,000	100,000
Drawdown on foreign currency borrowings	55,398	128,301	86,284	109,021	107,272	115,434
Subtotal	<u>60,048</u>	<u>184,888</u>	<u>132,085</u>	<u>176,682</u>	<u>212,596</u>	<u>238,891</u>
<u>Collections</u>						
Domestic currency loans	1,444	1,881	4,874	18,664	47,256	77,509
Debentures	183	155	692	2,314	4,570	7,374
Disposition of equity investment	69	1,000	1,000	1,000	1,000	1,000
Foreign currency loans	17,417	22,028	25,575	33,398	36,959	42,129
Subtotal	<u>19,113</u>	<u>25,064</u>	<u>32,141</u>	<u>55,376</u>	<u>89,785</u>	<u>128,012</u>
<u>Others</u>						
Decrease in other assets	-	-	-	-	-	-
Increase of other liabilities	2,011	2,676	6,019	13,174	12,312	14,036
Subtotal	<u>2,011</u>	<u>2,676</u>	<u>6,019</u>	<u>13,174</u>	<u>12,312</u>	<u>14,036</u>
<u>Total Sources</u>	<u>81,172</u>	<u>212,628</u>	<u>170,245</u>	<u>245,232</u>	<u>314,693</u>	<u>380,939</u>
<u>Uses</u>						
<u>Disbursements</u>						
Domestic currency loans	3,492	24,780	44,000	71,000	106,000	145,000
Debentures	460	3,350	5,600	8,825	13,275	18,100
Equity investments	1,550	3,193	5,600	8,825	13,275	18,100
Foreign currency loans	57,292	129,703	88,020	111,440	109,478	116,985
Subtotal	<u>62,794</u>	<u>161,026</u>	<u>143,220</u>	<u>200,090</u>	<u>242,028</u>	<u>298,185</u>
<u>Repayments</u>						
Domestic currency loans	68	67	68	67	68	67
LTCB debentures	-	-	-	-	10,000	30,000
Foreign currency borrowings	15,184	19,964	23,937	31,140	34,925	40,760
Subtotal	<u>15,252</u>	<u>20,031</u>	<u>24,005</u>	<u>31,207</u>	<u>44,993</u>	<u>70,827</u>
<u>Others</u>						
Increase of fixed assets (net)	33	195	230	120	125	35
Increase of other assets (excluding cash and short-term investment)	2,210	1,376	4,770	11,670	10,044	11,261
Decrease of other liabilities	-	-	-	-	-	-
Payment of dividend	1,200	2,000	7,399	11,000	12,000	13,200
Increase (decrease) in cash and short-term investment	(317)	28,000	(9,379)	(8,855)	5,503	(12,569)
Subtotal	<u>3,126</u>	<u>31,571</u>	<u>3,020</u>	<u>13,935</u>	<u>27,672</u>	<u>11,927</u>
<u>Total Uses</u>	<u>81,172</u>	<u>212,628</u>	<u>170,245</u>	<u>245,232</u>	<u>314,693</u>	<u>380,939</u>
Cash & short-term investment surpluses (shortage)	(317)	28,000	(9,379)	(8,855)	5,503	(12,569)
Opening balance of cash & short-term investment	8,436	8,119	36,119	26,740	17,885	23,388
Closing balance of cash & short-term investment	8,119	36,119	26,740	17,885	23,388	10,819

KOREA

KOREA DEVELOPMENT FINANCE CORPORATION

Ratio Analysis

	1979 (Actual)	1980	1981	1982	1983	1984
<u>Ratios</u>						
1. Income from loans as % of average portfolio	11.7	13.7	14.2	15.4	16.2	17.1
2. Cost of term debt as % of average term debt	9.2	10.7	11.2	12.5	13.6	14.6
3. Interest spread	2.5	3.0	3.0	2.9	2.6	2.5
4. Income from all portfolio as % of all average portfolio	11.7	13.9	14.5	15.6	16.5	17.5
5. Financial expenses as % of average term debt and equity	8.3	9.1	9.4	10.8	11.9	12.9
6. Earning spread	3.4	4.8	5.1	4.8	4.6	4.6
7. G & A expenses as % of average term debt and equity	1.0	1.0	0.9	1.0	1.1	1.2
8. Income from foreign currency loans as % of average foreign currency loan portfolio	11.4	13.0	12.2	12.6	12.7	13.2
9. Cost of foreign currency term debt as % of average foreign currency term debt	9.3	10.7	10.2	10.6	10.9	11.4
10. Interest spread on foreign currency loans	2.1	2.3	2.0	2.0	1.8	1.8
11. Income from all domestic currency portfolio as % of all average domestic currency portfolio	15.2	20.7	25.1	25.0	25.4	25.5
12. Domestic financial expenses as % of average domestic term debt & equity	0.4	1.4	6.6	11.4	14.1	15.7
13. Earning spread on domestic portfolio	14.8	19.3	18.5	13.6	11.3	9.8
14. Provision as % of loan & investment	1.4	1.4	1.4	1.4	1.4	1.4
15. Return on total assets (before income tax)	2.5	3.5	4.1	3.4	3.2	3.0
16. Return on total assets (after income tax)	1.8	2.5	2.9	2.4	2.2	2.1
17. Earnings as % of per share (average outstanding)	37.3	25.0	27.5	30.1	32.0	31.2
18. Cash dividend as % of per share	23.0	20.0	22.0	24.0	24.0	24.0
19. Payout ratio (cash dividend/net income)	61.7	79.9	80.0	79.8	75.0	76.8
20. Interest coverage ratio	1.36	1.53	1.51	1.38	1.32	1.28
21. Debt service coverage ratio	1.55	1.55	1.59	1.64	1.66	1.57
22. G & A expenses as % of average total assets	0.9	1.0	0.9	1.0	1.0	1.1
23. Indebtedness & undisbursed commitment equity	10.67:1	5.30:1	6.24:1	7.53:1	7.36:1	8.36:1
24. Net liquid asset/long-term debt falling due within one year (%)	66.3	123.3	101.2	85.0	69.0	43.5